ADVANCED COURSE

BOOKKEEPING FOR MODERN BUSINESS

KIRK AND STREET

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PREFACE

Bookkeeping for Modern Business, Advanced Course, is designed to be an introduction to the more technical phases of bookkeeping, and to follow logically the principles of bookkeeping —principles advocated and practiced by modern bookkeepers—as explained and illustrated in the elementary course. An attempt has been made to develop the work in such a way as to make no appreciable break between the so-called elementary bookkeeping work and the advanced one.

In preparing this text the authors have approached the subject in a manner somewhat different from most texts on advanced bookkeeping. Before attempting the bookkeeping work of a particular business, the book presents a full and complete discussion of the more important and difficult phases of the bookkeeping work. An opportunity, therefore, is afforded for a thorough study of each new principle before it is used in the regular bookkeeping sets. To this end a large number of simple and reasonable exercises have been included, each of which gives an intelligent explanation of some new principle.

The same general plan which characterizes the elementary course has been followed in the advanced course. Each new principle is presented in the same clear and concise manner, using, when possible, the ledger account as the basis of all explanation, and thereby illustrating clearly the theory of debit and credit. Some of the more important subjects included here, and not ordinarily illustrated or discussed in texts of this kind are: construction of accounts; classification of accounts; valuation accounts; reserve accounts; divisional profit and loss accounts; controlling accounts; contingent liability; renewal of notes; partial payment of notes; protested notes; goodwill; columnar books; subsidiary ledgers both in bound and loose-leaf form; working form for closing the ledger; turnover; turnover of stock; ten-column working sheet; calculation of percentages; graphical methods of presenting facts; comparative profit and loss statements; comparative balance sheets; schedules; exhibits, etc. These subjects are in harmony with modern bookkeeping and in conformity with sound theory and general practice. Then, as a means of providing necessary drill in bookkeeping technique and routine, the accounts and books of original entry are introduced. The papers, forms, and records peculiar to one special line of business are used until the student has become thoroughly familiar with them. In this way the student is permitted to devote all his time to the more practical phases of bookkeeping.

An effort has been made throughout to use the most modern types of classification of accounts and financial statements, and the method of closing the ledger which has the approval of business men and accountants. In presenting each subject, the approach has been made so simple and obvious that the student has little difficulty in preparing his work in a clear and concise manner. The treatment of columnar books, for example, illustrates and explains the columnar books so clearly that the student has little difficulty in applying the theory of debit and credit to each special column.

The selection of the subject matter of this text and the method of presentation have grown directly out of the authors' extensive preparation in collegiate and business schools; their practical accounting experience in manufacturing and banking houses; and their practical teaching experience in business colleges, institutes, academies, and high schools, both day and evening courses. The material in the book has been tested in classrooms by other

teachers. Invaluable assistance has been given by those who have been teaching from the original manuscript, and by accountants and business men who have read the manuscript and have made many valuable suggestions.

The authors desire to express their sincere appreciation of the assistance which they have received from business men and accountants who have been generous in supplying copies of their records and forms; to accountants and teachers in both business colleges and high schools who have read and suggested changes in the original manuscript; and to bookkeeping teachers in the Frankford High School and the William Penn High School who have used parts of the manuscript in their classes.

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BOOKKEEPING FOR MODERN BUSINESS

ADVANCED COURSE

PART I

PRINCIPLES OF ADVANCED BOOKKEEPING

Advanced Bookkeeping.—We have observed in our study of the so-called elementary bookkeeping that the various exercises or sets dealt with transactions of practically the same type. Merchandise was purchased and sold; payments were made and received; notes and trade acceptances were issued and received; expenses were incurred; losses were suffered and profits realized.

Advanced bookkeeping must necessarily deal with transactions of the same type as those illustrated in the elementary sets. In the advanced work many accounts are subdivided, additional ones are employed, and some are analyzed, in order that more extended and classified profit and loss statements and balance sheets may be prepared. Books of original entry, specially ruled, are also employed for recording the transactions as they occur. These specially ruled books permit the bookkeeper to perform his work more easily. New books are introduced and the creditors' and customers' accounts are separated in the ledger from the other accounts. The difference, therefore, between the so-called elementary and the advanced bookkeeping is in the method of recording some of the transactions; and in a further division of accounts and the employment of additional accounts in order that the work may be done more advantageously and information greatly to be desired by the proprietor may be secured from the accounts without unnecessary effort.

Construction of Accounts.—There is a general movement among experienced bookkeepers and accountants to-day to construct accounts each of which will represent transactions of a similar nature and nothing more. Such a division of accounts would not permit, in any one account, the recording of transactions other than those of a single nature. For instance, if we were to analyze the items formerly entered in the Merchandise Purchases account, the result would be an improved classification of those transactions which increase or decrease the cost of merchandise purchased, such as Merchandise Purchases, Freight Inward, Warehouse Expenses, Warehouse Labor, Return Purchases, etc. When simple accounts are constructed, each intended to record transactions only of a similar nature, the Merchandise Purchases account would contain a record of the purchases alone, while other accounts would be opened for Freight Inward, Warehouse Expenses, Warehouse Labor, Return Purchases, etc. These accounts would give definite information on the subjects indicated by their titles without being confused in any way with other information. This same principle applies to the Merchandise Sales, Selling Expense, and General Expense accounts, etc.

This principle of constructing accounts which will represent transactions of a similar nature and nothing more may be considered one of the most important steps taken by advanced bookkeeping beyond the so-called elementary bookkeeping. While it may not be advisable

in the following sets to construct every account in such a way as to give definite information on the subject indicated by its title, many new accounts will be introduced and others analyzed. When the General Expense and the Selling Expense accounts are used, all transactions will be recorded in them in cases where the items are few and the amounts small.

Classification of Accounts.—Accounts are usually divided into two general classes; namely, financial or real accounts, and profit and loss or nominal accounts.

Financial or Real Accounts are those which show by their results whether they are assets or liabilities and which, therefore, represent actual values owned or owed by the business. They appear on the balance sheet at the end of a business period in order to show the financial condition of the business. Since these accounts represent values which actually exist, they are often known as *real accounts.*

Real accounts which have been used thus far are: Cash, Personal, Notes Receivable, Notes Payable, Real Estate, Furniture and Fixtures, etc.

Profit and Loss or Nominal Accounts are those which show by their results either a profit or a loss or an account necessary to determine the profit or loss on merchandise. They are a series of accounts which record, in a classified manner, the condition of the business within itself during a business period. They are usually closed into a summary profit and loss account at the end of the business period. Since they exist only in name, in so far as they represent anything definite, they are often known as *nominal accounts.*

Nominal accounts which have been used thus far are: Merchandise Purchases, Merchandise Sales, Discount on Purchases, Discount on Sales, Interest Earned, Interest Paid, Freight Inward, Insurance Prepaid, Real Estate Expense, etc.

Nominal accounts are often known by other names; such as Income and Expense accounts; Income and Outgo accounts; Revenue Receipts and Revenue Expenditures, etc.

Assets and Liabilities Classified.—Assets may be divided into five general classes; namely, *current, fixed, accrued, deferred,* and *intangible.* Such a classification enables anyone to compare any group of assets with any corresponding group of liabilities.

Current assets are those which represent that part of the capital invested in assets which are constantly changing in value and quantity; those which may be readily converted into cash, such as cash on hand, accounts receivable, notes receivable, trade acceptance receivable, etc. Merchandise on hand, although commonly classified as a current asset, is sometimes known as a *working* or *trading asset.* This group of assets are sometimes called *quick, liquid, immediate, floating, circulating,* or *available* assets.

Fixed assets are those which represent that part of the capital invested in assets which are more permanent in their nature, such as real estate, furniture and fixtures, office equipment, machinery, tools, outside investments in stocks or bonds of other concerns, etc. This group of assets are also known as *capital* and *permanent assets.*

Accrued assets, or non-ledger assets, as they are frequently called, are those which represent amounts earned during a past business period, but which are not due or received at the time of closing the books, such as accrued interest on notes receivable, accrued rent receivable, etc. This group of assets are classified by some as *current assets.*

Deferred assets, or deferred charges to expense, are those which represent amounts paid out for expense items not applicable to the business period in which they were purchased, the charge to expense therefore being deferred to a future business period. They include insurance prepaid, rent prepaid, taxes prepaid, fuel prepaid, advertising prepaid, etc. They are sometimes called *assets by courtesy, deferred debits, deferred charges to operations,* etc.

Intangible assets are those which represent the value of such assets of the business as patents, copyrights, trademarks, franchises, goodwill, etc.

Liabilities also may be divided into five groups; namely, *current, fixed, accrued, deferred,* and *contingent.*

Current liabilities are those which represent amounts which are due or payable within a short period of time, such as notes payable, accounts payable, trade acceptance payable, etc. They are sometimes called *quick, immediate, floating,* and *circulating* liabilities.

Fixed or capital liabilities are those which represent amounts obtained for investment in the business. They are usually obligations which extend over a period of years, such as mortgages payable, bonds payable, long term notes, etc.

Accrued liabilities or non-ledger liabilities are those which represent obligations which were incurred but not due and payable during the business period in which they occurred, such as taxes accrued, wages accrued, interest accrued on notes payable, etc.

Deferred liabilities or deferred credits to income are those which represent income received in a business period prior to the one to which the income is applicable. They include such items as royalties, rent, etc., received in advance.

Contingent liabilities are those which represent amounts which will have to be paid under certain conditions, such as notes receivable discounted, trade acceptances receivable discounted, etc. The liability depends upon the makers, acceptors, or endorsers of notes and trade acceptances not paying them when due.

Valuation accounts are those which represent that portion of the capital which has been set aside for specific purposes, such as reserve for bad debts, reserve for depreciation on furniture and fixtures, reserve for depreciation on buildings, etc. While these accounts are often spoken of as liabilities, it is a better practice to consider them as a portion of the capital; as, for example, reserve for bad debts represent the amount set aside to be deducted from the book value of Accounts Receivable in the balance sheet.

Proprietorship or proprietary interest is the financial investment in the business which is represented by the excess of the assets over the liabilities. It includes not only the capital and personal accounts of the proprietor but also any undivided profits and amounts set aside as reserves for the purpose of providing for possible loss through failure to collect customers' accounts, or through depreciation of one or more of the physical assets.

Nominal or Profit and Loss Accounts Classified.—Income, sometimes called revenue and earnings, may be defined as the increase in capital resulting from its employment in a specific business or from other investment. The first group may be classified as principal or operating income accounts, and the second group as secondary or non-operating income accounts.

Principal or operating income accounts in a trading concern are those which record the amount of receipts from the sale of merchandise, such as the Merchandise Sales account. Since this is the principal income of the business it is called the *income from operation.*

Secondary or non-operating income accounts in a trading concern are those which record certain income earned from the employment of surplus funds other than that embraced in the principal income for which the business was established, such as interest earned, discount on purchases, etc. Such sources of income should be distinguished from the principal income from operation, as they represent income from purely financial transactions.

Expenses may be divided into two groups; namely, that which pertains directly to operations for which the business was established, called *principal* or *operating* expenses; and that which pertains to the organization as a whole, called *secondary* or *non-operating* expenses.

Principal or operating expenses are those which presumably will be restored by income from operations for which the expenditure was made; such as expenses incurred when purchasing merchandise, selling expenses, and expenses entailed by general supervision of the business.

Secondary or non-operating expenses are those of a purely financial nature and are not connected with the direct operations for which the business was established, such as discounts on sales, interest paid, etc.

Divisional Profit and Loss Account.—While the Profit and Loss account shows the net result of operating the business as a whole, it is often more desirable to record the information shown in the Profit and Loss statement in greater detail in the ledger. In order to do this it is necessary to separate the various items and classify them under their proper divisions. For instance, the proprietor may want a permanent record in the ledger showing the sources and the amount of the income of the business for a given business period, and the expenses involved in securing that income. This may be accomplished in a partnership business by subdividing the Profit and Loss account into a number of parts; as, for example, Trading, Administration, and Profit and Loss. These subdivisions of the Profit and Loss account under appropriate headings describing their nature, when considered as a group, are known as *revenue accounts.*

Trading Account groups together all the profit and loss items relating directly to the purchase and sale of merchandise. As a revenue account, therefore, it includes not only those accounts necessary to determine the gross trading profit but those accounts affecting the sale of merchandise, such as salesmen's expenses, salesmen's salaries, advertising, etc. The balance of the Trading account, representing the net trading profit, is transferred to the Administration account. Illustrations follow which show (1) when simple closing journal entries are used; (2) when a compound closing journal entry is used.

Trading

Illustration 301 (1)

19—						19—					
June	30	**Purchases**		**25,500**	**00**	June	30	**Sales**		**37,875**	**00**
	30	**Freight Inward**		**400**	**00**		30	**Return Purchases**		**125**	**00**
	30	**Salesmen's Salaries**		**1,200**	**00**						
	30	**Salesmen's Expenses**		**600**	**00**						
	30	**Delivery Expense**		**200**	**00**						
	30	**Advertising**		**300**	**00**						
	30	**Administration**		**9,800**	**00**						
				38,000	**00**					**38,000**	**00**

Trading

Illustration 302 (2)

19—						19—					
June	30	**Sundries***		**28,200**	**00**	June	30	**Sundries***		**38,000**	**00**
	30	**Administration**		**9,800**	**00**						
				38,000	**00**					**38,000**	**00**

* More than one account.

Administration Account groups together the profit and loss accounts relating directly to the general administration of the business. As a revenue account, therefore, it includes such accounts as office salaries, office expenses, office supplies, etc. The balance of the Administration account, representing the net operating profit or loss, is transferred to the Profit and Loss account. Illustrations follow which show (1) when simple closing journal entries are used; (2) when a compound closing journal entry is used.

Administration

Illustration 303 (1)

19—						19—					
June	30	Office Salaries		2,500	00	June	30	Trading		9,800	00
	30	Office Expense		1,800	00						
	30	Office Supplies		600	00						
	30	Profit and Loss		4,900	00						
				9,800	00					9,800	00

Administration

Illustration 304 (2)

19—						19—					
June	30	Sundries		4,900	00	June	30	Trading		9,800	00
	30	Profit and Loss		4,900	00						
				9,800	00					9,800	00

Profit and Loss Account groups together all accounts of a purely financial nature and the net operating profit or loss of the Administration account. It includes such accounts as discount on merchandise purchases, discount on merchandise sales, interest earned, interest paid, etc. After any amounts have been set aside for the reserve accounts, the balance is transferred to the proprietor's account, or, in the case of a partnership, according to the partnership agreement. Illustrations follow which show (1) when simple closing journal entries are used; (2) when a compound closing journal entry is used.

Profit and Loss

Illustration 305 (1)

19—						19—					
June	30	Interest Paid		600	00	June	30	Administration		4,900	00
	30	Bad Debts		1,000	00		30	Interest Earned		500	00
	30	Sales Discount		1,400	00		30	Purchases Discount		700	00
	30	Depreciation—Building		600	00						
	30	Reserve—Bad Debts		800	00						
	30	Reserve—Depre. on Bldg.		600	00						
	30	Proprietor		1,100	00						
				6,100	00					6,100	00

Profit and Loss

Illustration 306 (2)

19—					19—				
June	30	Sundries		3,600 00	June	30	Administration		4,900 00
	30	Sundries		2,500 00		30	Sundries		1,200 00
				6,100 00					6,100 00

Controlling Accounts.—Many trading concerns which have hundreds of customers' and creditors' accounts on their books usually find it more convenient to group these accounts together in separate divisions, commonly called the *purchases ledger* and *sales ledger*. The remaining accounts are then grouped together in another division called the *general ledger*. This affords an opportunity for a division of the bookkeeping work among a number of persons. The general ledger is usually kept by the general or head bookkeeper, while the purchases and sales ledgers are assigned to his assistants.

When the ledger is subdivided the question naturally arises as to the best means for taking a trial balance from the ledgers when a number of persons are using them. It is apparent that the equilibrium of the general ledger is destroyed when the customers' and creditors' accounts are in separate ledgers. It will be necessary, therefore, when taking a trial balance, to include the accounts in both the purchases and sales ledgers as well as those in the general ledger.

Modern bookkeepers have employed a very useful method to aid them in ascertaining whether or not the ledger accounts are in balance, without taking into consideration the accounts entered in either the purchases or sales ledgers. It may not always be convenient to wait for a large number of individual accounts to be balanced before taking a trial balance of the general ledger. Besides, it is frequently necessary to close the general books and prepare the profit and loss statement and the balance sheet before the posting of the purchases and sales ledgers is completed. Accounts, therefore, have been opened in the general ledger whose balances summarize the balances found in the purchases and sales ledgers. For instance, when the assistant bookkeeper prepares a list or schedule consisting of the individual balances found in the purchases ledger, its total must agree with the balance of the account opened in the general ledger. Likewise, a list or schedule consisting of the individual balances found in the sales ledger must agree with the balance of the account opened in the general ledger. *This gives the head bookkeeper an opportunity to verify the work which he assigns to his assistant, since these accounts are checks against the mathematical accuracy of the purchases and sales ledgers.*

An account whose balance summarizes the balances of the individual accounts in either the purchases or sales ledgers is usually called a *Controlling account* and is commonly known as Accounts Payable or Accounts Receivable account respectively.

It is the usual custom to have specially ruled books of original entry, which have amount columns in which to enter items to be posted to the sales and purchases ledgers. The assistant bookkeeper posts the separate items entered in the special columns to the proper accounts in either the sales or purchases ledger, while the head bookkeeper posts the sum of the special columns to the controlling accounts in the general ledger.

It will be observed that by the introduction and use of special columns in books of original entry, and by the use of controlling accounts, much additional information is made available.

Accounts Payable Account.—When posting from the purchases journal, the assistant bookkeeper credits the creditors' accounts for their individual amounts, while the general bookkeeper, at the end of the month or other period, credits the Controlling account for the total amount of all purchases. Likewise, when posting from the cashbook, the notes payable book, and the various journals, the assistant bookkeeper debits the creditors' accounts for their individual amounts, while the general bookkeeper debits the Controlling account from each book for the total of the individual amounts which were posted separately to the purchases ledger. Thus, the Accounts Payable account shows, in total, the condition of the many individual accounts in the purchases ledger. The general bookkeeper is enabled, when his assistant submits a list or schedule of the balances of the accounts in the purchases ledger, to tell whether or not it is mathematically correct.

Accounts Receivable Account.—When posting from the sales journal, the assistant bookkeeper debits the customers' accounts for their individual amounts, while the general bookkeeper, at the end of the month or other period, debits the Controlling account for the total amount of all sales. Likewise, when posting from the cashbook, the notes receivable book, and the various journals, the assistant bookkeeper credits the customers' accounts for their individual amounts, while the general bookkeeper credits the Controlling account from each book for the total of the individual amounts which were posted separately to the sales ledger. The general bookkeeper is enabled, when his assistant submits a list or schedule of the balances of the accounts in the sales ledger, to tell whether or not it is mathematically correct.

Summary. 1. When it is desirable to ascertain how much the business owes an individual creditor, the purchases ledger is referred to; when it is desirable to ascertain how much the business owes all creditors in the aggregate, the Controlling account, Accounts Payable, in the general ledger is referred to.

2. When it is desirable to ascertain how much an individual customer owes the business, the sales ledger is referred to; when it is desirable to ascertain how much all customers owe the business in the aggregate, the Controlling account, Accounts Receivable, in the general ledger is referred to.

3. The trial balance is shortened because the Controlling accounts in the general ledger are substituted for the many creditors' and customers' accounts in the auxiliary ledgers.

4. While the Controlling accounts are checks against the mathematical accuracy of the purchases and sales ledgers, they do not prevent the assistant bookkeeper from posting an amount to the wrong account nor will they point out such mistakes.

THE ACCOUNTS PAYABLE ACCOUNT

The *object* of keeping an Accounts Payable account in the general ledger is to show, in total, the amount due creditors as shown by the individual accounts in the purchases ledger.

Illustrative Exercise

The following represent the sum of the individual amounts in each special column or book which were posted separately to the purchases ledger.

July 31 Cashbook, cash payments, Accounts Payable column, \$5,000.00.
31 Purchases journal, \$10,000.00.
31 Journal, Accounts Payable column, Dr., \$300.00.
31 Notes Payable book, \$1,000.00.
31 Return Purchases journal, \$200.00.

Accounts Payable

Illustration 307

19—						19—					
July	31		C	25	5,000 00	July	31		P	34	10,000 00
	31		J	7	300 00						
	31		N P	11	1,000 00						
	31		R P	3	200 00						
	31	Balance*			3,500 00						
					10,000 00						10,000 00
						Aug.	1	Balance			3,500 00

Observations: *Debit* the Accounts Payable account for the sum of the individual amounts of each special column or book which were posted separately to the purchases ledger.

Credit the Accounts Payable account for the sum of the individual amounts posted separately from the purchases journal to the purchases ledger.

The *result* of the Accounts Payable account shows the amount due creditors in the aggregate, found by taking the difference between the two sides of the account. This balance represents, in total, the amount due creditors, and is shown as a current liability in the balance sheet.

The Accounts Payable account is closed at certain intervals, at the end of the month or other period, in order to show, in total, the amount due creditors. While some bookkeepers prefer not to close the Accounts Payable account until it balances or when it is necessary to transfer it to another page, many close it at the end of a business period when the balance sheet is prepared. Review Controlling account and Accounts Payable account on pages 14 and 15.

Exercise 201

Prepare the controlling account, Accounts Payable, for the following example:

August 31 Purchases journal, $12,000.00.
31 Notes Payable book, $1,500.00.
31 Cashbook, cash payments, Accounts Payable column, $7,500.00.
31 Return Purchases journal, $650.00.
31 Journal, Accounts Payable column, Dr., $450.00.

THE ACCOUNTS RECEIVABLE ACCOUNT

The *object* of keeping an Accounts Receivable account in the general ledger is to show, in total, the amount due from customers as shown by the individual accounts in the sales ledger.

Illustrative Exercise

The following represents the sum of the individual amounts in each special column or book which were posted separately to the sales ledger.

July 31 Cashbook, cash receipts, Accounts Receivable column, $5,000.00.
31 Sales journal, $12,000.00.
31 Journal, Accounts Receivable column, Cr., $250.00.
31 Notes Receivable book, $750.00.
31 Return Sales journal, $150.00.

* This line in red ink.

Accounts Receivable

Illustration 308

Date		Item	F	Amount	Date		Item	F	Amount
19—					19—				
July	31		S 17	12,000 00	July	31		C 24	5,000 00
						31		J 12	250 00
						31		N R 15	750 00
						31		R S 6	150 00
						31	Balance		5,850 00
				12,000 00					12,000 00
Aug.	1	Balance		5,850 00					

Observations: *Debit* the Accounts Receivable account in the general ledger for the sum of the individual amounts which were posted separately from the sales journal to the sales ledger.

Credit the Accounts Receivable account for the sum of the individual amounts of each special column or book which were posted separately to the sales ledger.

The *result* of the Accounts Receivable account shows the amount due from customers in the aggregate, found by taking the difference between the two sides of the account. This balance represents, in total, the amount due from customers, and is shown as a current asset in the balance sheet.

The Accounts Receivable account is closed at certain intervals, at the end of the month or other period, in order to show, in total, the amount due from customers. While some bookkeepers prefer not to close the Accounts Receivable account until it balances or when it is necessary to transfer it to another page, many close it at the end of a business period when the balance sheet is prepared. Review Controlling account and Accounts Receivable account on pages 14 and 15.

Exercise 202

Prepare the controlling account, Accounts Receivable, for the following example:

August 31 Sales journal, $18,000.00.
31 Return Sales journal, $645.00.
31 Notes Receivable book, $1,250.00.
31 Journal, Accounts Receivable column, Cr., $725.00.
31 Cashbook, cash receipts, Accounts Receivable column, $12,400.00.

THE ACCRUED ASSETS ACCOUNT

The *object* of keeping an Accrued Assets account is to show the amount earned for services rendered during the business period, but not due or received at the time of closing the books, such as accrued interest on notes receivable, accrued rent receivable, etc.

Illustrated Exercise

The following represent the amounts earned for services rendered, but not due or received at the time of closing the books, December 31, 19—.

December 31 Accrued interest on notes receivable, $75.50.
31 Accrued rent, 38 Pine Street, $125.00.

Accrued Assets

Illustration 309

19—							19—						
Dec.	31	Interest on N. R.	J	4	75	50	Jan.	1	Interest Earned	J	7	75	50
	31	Rent—38 Pine St.	J	5	125	00	"	1	R. E. Inc. & Exp.	J	7	125	00
					200	50						200	50

Observations: *Debit* the Accrued Assets account for the amount earned for services rendered during the business period, but not due or received at the time of closing the books.

Credit the Accrued Assets account immediately after the books are closed or at the beginning of the next business period, debiting the proper nominal accounts in order that they may represent their true value at the beginning of the next business period.

The Accrued Assets account is closed immediately after the books are closed or at the beginning of the next business period, usually by a journal entry. It is sometimes classified as current or current and accrued assets in the balance sheet. Review Accrued Assets on page 10.

THE ACCRUED LIABILITIES ACCOUNT

The *object* of keeping an Accrued Liabilities account is to show the amounts of obligations which were incurred but not due and payable during the business period in which they occurred.

Illustrative Exercise

The following represent the amounts of obligations which were incurred but not due and payable at the time of closing the books, December 31, 19—.

December 31 Taxes, 38 Pine Street, $77.00.
31 Accrued interest on notes payable, $53.00.
31 Accrued wages of bookkeeper, $35.00.

Accrued Liabilities

Illustration 310

19—							19—						
Jan.	1	R. E. Inc. & Exp.	J	8	77	00	Dec.	31	Taxes—38 Pine St.	J	7	77	00
	1	Interest Paid	J	8	53	00		31	Interest on N. R.	J	7	53	00
	1	Office Wages	J	9	35	00		31	Wages of bookkeeper	J	8	35	00
					165	00						165	00

Observations: *Debit* the Accrued Liabilities account immediately after the books are closed or at the beginning of the next business period, crediting the proper nominal accounts in order that they may represent their true value at the beginning of the next business period.

Credit the Accrued Liabilities account for the amounts of obligations which were incurred but not due and payable during the business period in which they occurred.

The Accrued Liabilities account is closed immediately after the books are closed or at the beginning of the next business period, usually by a journal entry. It is sometimes classified as a current or current and accrued liability in the balance sheet. Review Accrued Liabilities on page 11.

THE DEFERRED ASSETS ACCOUNT

The *object* of keeping a Deferred Assets account is to show the amounts paid out for expense items not applicable to the business period in which they were purchased, the charge to expense, therefore, being deferred to a future business period.

Illustrative Exercise

The following represents the amounts paid out for expense items not applicable to the business period ending December 31, 19—.

December 31 Prepaid insurance, 38 Pine Street, $15.00.
31 Prepaid taxes, 38 Pine Street, $75.00.
31 Prepaid advertising, $20.00.

Deferred Assets

Illustration 311

19—							19—						
Dec.	31	Insurance—38 Pine St.	J	7	15	00	Jan.	1	R. E. Inc. & Exp.	J	9	15	00
	31	Taxes, 38 Pine St.	J	7	75	00		1	R. E. Inc. & Exp.	J	9	75	00
	31	Advertising	J	7	20	00		1	Advertising	J	9	20	00
					110	00						110	00

Observations: *Debit* the Deferred Assets account for the amounts paid out for expense items not applicable to the business period in which they were purchased.

Credit the Deferred Assets account immediately after the books are closed or at the beginning of the next business period, crediting the proper nominal accounts, in order that they may represent their true value at the beginning of the next business period.

The *result* of the Deferred Assets account shows the amount paid out for expense items not applicable to the business period in which they were purchased. They usually consist of expense items that have been paid but not used during the business period, the charge being deferred to a future business period.

The Deferred Assets account is closed immediately after the books are closed or at the beginning of the next business period, usually by a journal entry. Some bookkeepers use Sundry Resource Inventory or Deferred Charges to Operation account instead of Deferred Assets account. Review Deferred Assets on page 10.

THE DEFERRED LIABILITIES ACCOUNT

The *object* of keeping the Deferred Liabilities account is to show the income received during a business period prior to the one to which the income is applicable.

Illustrative Exercise

The following represents the income received during the business period prior to the one to which it is applicable, December 31, 19—.

December 31 Rent paid in advance, 38 Pine Street, $125.00.
31 Royalties paid in advance, $85.00.
31 Interest paid in advance on notes receivable, $15.00.

Deferred Liabilities

Illustration 312

19—							19—						
Jan.	1	R. E. Inc. & Exp.	J	8	125	00	Dec.	31	Rent, 38 Pine St.	J	6	125	00
	1	Royalties	J	8	85	00		31	Royalties	J	6	85	00
	1	Interest Earned	J	8	15	00		31	Interest on N. R.	J	7	15	00
					225	00						225	00

Observations: *Debit* the Deferred Liabilities account immediately after the books are closed or at the beginning of the next business period, debiting the proper nominal accounts in order that they may represent their true value at the beginning of the next business period.

Credit the Deferred Liabilities account for the income received during a business period prior to the one to which it is applicable.

The *result* of the Deferred Liabilities account shows the amount of income received during a business period prior to the one to which it is applicable.

The Deferred Liabilities account is closed immediately after the books are closed or at the beginning of the next business period, usually by a journal entry. Some bookkeepers use Sundry Liabilities Inventory or Deferred Credits to Income account instead of the Deferred Liabilities account. Review Deferred Liabilities on page 11.

Valuation Accounts.—Review carefully pages 173 and 175 where a full discussion of depreciation is presented. When a Fixed asset, Furniture and Fixtures for example, is used to show the *cost value* of the property, the original cost value is neither increased nor decreased while the property is in use. If an article which has been charged to this account is sold or otherwise disposed of, the account is credited with the original cost value of the property. Since property decreases in value from the time it is purchased, the original cost price is seldom obtained for any second-hand property. We learned that this decrease in value, or depreciation, is a cost of conducting the business; hence the amount of the decrease in value is a loss to the business, and is charged, at the close of the business period, to the General Expense or Depreciation account. Since the charge is made because of the depreciation of various items in the Furniture and Fixtures account, either the Furniture and Fixtures account or another account must be credited for a like amount. Instead of crediting the Furniture and Fixtures account for the estimated amount of depreciation, it is a better practice to credit a *negative* or *valuation* account, called Reserve for Depreciation of Furniture and Fixtures. The Furniture and Fixtures account will then show the *original cost value* of the property, while the valuation account, Reserve for Depreciation of Furniture and Fixtures, will show the net amount set aside to take care of the decreasing value of the property.

Since depreciation is a proper charge of conducting the business, a journal entry is usually made, at the close of the business period, to provide for the reserve, as shown by the following illustration:

Illustration 313

Dec.	31		Depreciation of Furniture and Fixtures	51	90		
			Reserve for Depreciation of Furniture and Fixtures			51	90

If it is desirable to include the estimated value of the depreciation on Furniture and Fixtures in the (Sundry) General Expense account, the following journal entry would be made:

Illustration 314

Dec.	31	General Expense	51	90		
		Reserve for Depreciation of Furniture and Fixtures			51	90

Whether the Depreciation account or the General Expense account is debited for the estimated amount of the depreciation, the Administration account (a division of the Profit and Loss account) is effected. The explanation would be the same for each journal entry.

Reserve for Depreciation of Furniture and Fixtures in the Balance Sheet.—The question naturally arises as to the proper method of exhibiting in the balance sheet the Reserve for Depreciation of Furniture and Fixtures. Many bookkeepers follow the practice of deducting the Reserve from the Furniture and Fixtures account, while others show it just before the proprietary account on the liability side. The latter method needs little special explanation and may be followed if the instructor so desires. The following illustrates the method of exhibiting the Reserve in the balance sheet as a deduction to the asset.

Illustration 315

Furniture and Fixtures	519	00		
Less: Reserve for Depreciation	51	90	467	10

Other Reserves.—The same general principle applies for other accounts when reserves are set up to take care of the estimated amount of depreciation on them.

Delivery Equipment,	Reserve for Depreciation of Delivery Equipment.
Machinery and Equipment,	Reserve for Depreciation of Machinery and Equipment.
Building, 325 Pine Street,	Reserve for Depreciation of Building, 325 Pine Street.

RESERVE FOR DEPRECIATION OF FURNITURE AND FIXTURES

The *object* of keeping a reserve for Depreciation of Furniture and Fixtures account is to show the net amount of the reserve set aside to take care of the estimated amount of depreciation of furniture and fixtures purchased for the use of the business.

Illustrative Exercise

The following represent the amounts which have been set aside to take care of the estimated amount of depreciation of the items appearing in the Furniture and Fixtures account.

January	1	Balance previously set aside, $103.80.
March	5	Desk, cost value, $85.00, sold, depreciation, $17.00.
December	31	Estimated depreciation 10%, $46.71.

Reserve for Depreciation of Furniture and Fixtures

Illustration 316

19—							19—						
March	5	Desk	J	8	17	00	Jan.	1	Balance			103	80
							Dec.	31	Estimated 10%	J	11	46	71

Observations: *Debit* the Reserve for Depreciation of Furniture and Fixtures account, when some particular article is sold, exchanged or otherwise disposed of, with the estimated amount of the reserve previously set aside for depreciation of that article.

Credit the Reserve for Depreciation of Furniture and Fixtures account, at the close of a business period, for the estimated amount of the depreciation of the various items appearing in the Furniture and Fixtures account.

The *result* of the Reserve for Depreciation of Furniture and Fixtures account shows the net amount set aside for the estimated depreciation or decrease in value of furniture and fixtures.

The Reserve for Depreciation of Furniture and Fixtures account is usually not closed until it balances, unless it is necessary to transfer the balance to another page. In that case, it is closed similarly to the Cash account on page 13. Review Valuation accounts on page 11.

Bad Debts Account. Experience has shown that when goods are sold on account it is unusual to be able to collect from all customers, and that a loss results. Accounts which are known to be uncollectable should be separated from those that are good, in order that the Accounts Receivable account may show the amount which can be collected. For this reason bookkeepers deem it advisable to remove these accounts from the sales ledger and the Accounts Receivable account and transfer them to another account, commonly called Doubtful or Bad Debts account in the general ledger. The Doubtful or Bad Debts account, therefore, is used as a summary or sundries account to which all uncollectable accounts of the business period are transferred. The following journal entry will illustrate the method used to transfer an uncollectable account from the sales ledger to the general ledger:

Illustration 317

May	2		Bad Debts (Doubtful)	45	50		
			Thomas Brown (Accounts Receivable)			45	50

Since the Bad Debts or Doubtful account will show the total amount of uncollectable accounts of a business period, it is closed into the Profit and Loss account at the close of the business period, usually by a journal entry.

Illustration 318

Dec.	31		Profit and Loss	345	67		
			Bad Debts (Doubtful)			345	67

THE BAD DEBTS ACCOUNT

The *object* of keeping a Bad Debts account is to show the total amount of uncollectable accounts which have been transferred from the sales ledger and Accounts Receivable account to the general ledger.

Illustrative Exercise

The following represent the amounts of uncollectable accounts which have been transferred during the business period from the sales ledger and Accounts Receivable account to the Bad Debts account.

January	27	Louis L. Wilson's account, $56.78.
May	4	Robert Mason's account, $43.22.
November	11	William Lee's account, $25.00.
December	10	Collected from William Lee, $12.00.
December	31	Closed into the Profit and Loss account.

BAD DEBTS

Illustration 319

19—							19—						
Jan.	27	Louis L. Wilson	J	9	56	78	Dec.	10	William Lee	C	24	12	00
May	4	Robert Mason	J	11	43	22		31	Profit and Loss	J	14	113	00
Nov.	11	William Lee	J	12	25	00							
					125	00						125	00

Observations: *Debit* the Bad Debts account to show the amount of each uncollectable account appearing in the sales ledger.

Credit the Bad Debts account to show the amount, previously debited to the Bad Debts account, which has been collected during the business period; debiting the Profit and Loss account at the close of the business period, for the balance of the account.

The *result* of the Bad Debts account shows the total amount of uncollectable accounts transferred to it from the sales ledger. The balance, representing the total amount of uncollectable accounts for the business period, is transferred to the Profit and Loss account.

Reserve for Bad Debts.—Accounts receivable usually represent accounts with regular customers showing the total amount of their indebtedness to the business. Experience teaches us that it is most unusual to be able to collect from all customers. Since the net sales of a business period affect, among other things, not only the accounts receivable but the net profits of the business, it is considered good practice to retain part of that amount of profits which was estimated on the belief that each sale to a customer could be collected. While it is usually impossible to determine, at the close of a business period, which accounts will not be paid, there is a probability that some of the accounts can not be collected. If it were possible to determine which particular account could not be collected, it could be transferred to the Bad Debts account and later closed into the Profit and Loss account, thus affecting the net profits of the business period in which it originated. But, since this is impossible, the Reserve for Bad Debts account becomes a necessity for proper accounting.

There are two methods used for determining the amount of profit which should be set aside to meet accounts receivable which prove bad during the next business period. First, the estimated loss is determined as a certain per cent of the total or net sales of the business; or, second, the estimated loss is determined as a certain per cent of the accounts receivable at the close of the business period. The rate of per cent is usually based in either case upon the previous experience of the business. For example, if the total amount of accounts receivable at the close of a business period amounted to $25,000.00, and the previous experience of the business showed that it lost 1% of the accounts receivable, the estimated amount of loss would amount to $250.00 during the next business period. Whether the first or second method is used as the basis for estimating the amount of loss the following journal entry is usually made:

Illustration 320

Dec.	31		**Bad Debts**	250	00		
			Reserve for Bad Debts			250	00

The Reserve for Bad Debts account shows the amount which has been set aside out of profits to meet any possible loss during the next business period on accounts receivable which were on the books when they were closed. Since this provision has been made for such losses, the current profits will not be affected when a loss occurs. For example, if Brown and White, who owed the business $125.00 for goods purchased the previous business period and whose debt was included among the accounts receivable when the reserve was set up, failed, the following journal entry would be made:

Illustration 321

Jan.	23		**Reserve for Bad Debts**	125	00		
			Brown and White (Accounts Receivable)			125	00

It will be observed that only the Reserve for Bad Debts account is affected by this entry. It will not in any way affect the profits of the current business period.

THE RESERVE FOR BAD DEBTS ACCOUNT

The *object* of keeping a Reserve for Bad Debts account is to show the amount of profit (reserve) set aside to meet any possible loss on account of bad debts.

Illustrative Exercise

The following represent the amount set aside as a Reserve for Bad Debts, and the accounts receivable which could not be collected.

December	31	1% of the accounts receivable, $456.00.
January	23	Brown and White's account, $125.00.
August	4	B. L. Jones' account, $75.00.
November	11	L. H. Holme's account, $56.00.

Reserve for Bad Debts

Illustration 322

19—							19—						
Jan.	23	Brown and White	J	11	125	00	Dec.	31	1% Accts. Rec.	J	10	456	00
Aug.	4	B. L. Jones	J	12	75	00							
Nov.	11	L. H. Holme	J	14	56	00							

Observations: *Debit* the Reserve for Bad Debts account to show the amount which could not be collected from customers.

Credit the Reserve for Bad Debts account to show the estimated amount of uncollectable accounts receivable appearing on the books at the close of the business period.

The *result* of the Reserve for Bad Debts account shows the net amount still available to take care of bad debts. It may be shown in the balance sheet as a deduction from accounts receivable, as shown by the following illustration:

Illustration 323

		Accounts Receivable	25,000	00		
		Less: Reserve for Bad Debts	200	00	24,800	00

The Reserve for Bad Debts account is usually not closed until it balances, unless it is necessary to transfer it to another page in the ledger.

Reserve Fund.—A reserve fund must not be confused with the ordinary Reserve for Depreciation account. The Reserve Fund will be fully explained and illustrated in the manufacturing set.

Contingent Liabilities.—When a business discounts its notes receivable it is necessary, in order to effect a transfer of ownership, to endorse them. The endorsement signifies that the endorser who discounted the note becomes responsible for its payment if the maker fails to pay it when due. *The liability of the endorser, which exists until the maker of the note pays his promise, is known as a contingent liability.* Since all transactions of the business should be shown on the books, in order to make clear the true condition of the business, a record should be made at the time the note is discounted, to show the contingent liability of the endorser.

When the contingent liability of the endorser is shown on the books it necessitates the opening of a new account called Notes Receivable Discounted. Instead of crediting the Notes Receivable account when a note receivable is discounted, the Notes Receivable Discounted account is credited. For example, if a business discounts at the bank a 60-day non-interest bearing note for $500.00, the contingent liability of the endorser is shown in the Notes Receivable Discounted account instead of credited to the Notes Receivable account. While in actual bookkeeping work the record would be entered in the cashbook and the proper memorandum made in the Remarks column of the notes receivable book, the following journal entry will illustrate the transaction more clearly:

Illustration 324

May	1		Cash	495	00		
			Interest Paid	5	00		
			Notes Receivable Discounted			500	00

Observe that the Notes Receivable Discounted account is credited when a notes receivable is discounted, since the contingent liability of the endorser should appear on the books. By referring to the notes receivable book, one can easily determine when the discounted note is due. If no notice of the non-payment of the discounted note has been received after it is due, the following journal entry is made:

Illustration 325

July	5		Notes Receivable Discounted	500	00		
			Notes Receivable			500	00

Observe that the Notes Receivable Discounted account is debited when the endorser is relieved of the contingent liability, while the Notes Receivable account is credited. Since the Notes Receivable account is not affected when a notes receivable is discounted, its balance, at

any time, will represent the notes receivable on hand as well as those discounted by the business. If there is a balance in the Notes Receivable Discounted account at the close of a business period, it is subtracted in the balance sheet from the amount in the Notes Receivable account as shown by the following illustration:

Illustration 326

		Notes Receivable	750	00		
		Less: Notes Receivable Discounted	250	00	500	00

The same principle applies when trade acceptances receivable are discounted. Instead of crediting the Trade Acceptance Receivable account when a trade acceptance is discounted, the Trade Acceptance Receivable Discounted account is credited to show the contingent liability of the endorser. If there is a balance in the Trade Acceptance Receivable Discounted account at the close of a business period, it is subtracted in the balance sheet from the amount in the Trade Acceptance Receivable account, similarly to Illustration 326.

Renewal of Notes.—It frequently happens that the maker of a note is unable to pay it when due. It is a common practice for him to issue a new note for the original one, and if it be an interest-bearing note, to pay the interest in cash. The original note is marked *Paid* and returned to the maker. The record for the old note is marked *Paid* in the notes receivable book, while a new record is made for the new note. Under no condition should the record for the old note be used as the record for the new one in the notes receivable book or the Notes Receivable account. For example, suppose that Thomas B. Reed gave the business his 30-day interest-bearing note for $1,000.00 on account. While the record for the note could be made directly in the notes receivable book when it is used as a book of original entry, the following journal entry will illustrate the transaction more clearly:

Illustration 327

Jan.	2		Notes Receivable	1,000	00		
			Thomas B. Reed (Accounts Receivable)			1,000	00

If Thomas B. Reed is unable to pay his note when due, he may request the business to accept a new note in payment. If this is done, Thomas B. Reed would issue a new note for the original one, paying the interest in cash. The record for the Interest Earned would be entered in the cashbook, while the following journal entry cancels the record for the old note and records the new one on the books:

Illustration 328

Feb.	1		Notes Receivable (New)	1,000	00		
			Notes Receivable (Old)			1,000	00

If the notes receivable book is not used as a book of original entry, some bookkeepers have it affect the Notes Receivable account alone. When the notes receivable book is used as a book of original entry, the most common practice is to have it affect both the Notes Receivable account and Thomas B. Reed's (Accounts Receivable) account. The record for the new notes

receivable in the journal is then checked and the amount posted directly from the notes receivable book.

Partial Payment of Notes.—Sometimes the maker of a note is unable to pay the full amount of his note but is able to make a partial payment when the note is due. He may request the holder to accept his check for a part and issue a new note for the balance remaining unpaid. For example, suppose Ernest B. Race is unable to redeem his 30-day non interest bearing note for $500.00 due to-day, but agreed to give his check for $250.00 and his 30-day interest-bearing note for the balance. If the business accepted his offer, the following journal entry will illustrate the method of recording the transaction.:

Illustration 329

Jan.	26	√	**Cash**	250	00		
			Notes Receivable (New)	250	00		
			Notes Receivable (Old)			500	00

Observe that the original note has been redeemed by the maker and should be returned to him, while the new note is recorded upon the books.

Protested Notes.—It may happen that the maker of a note is unable to pay it when due. When this occurs, notice of the dishonor—non-payment—must be given to each endorser, if there be endorsers of the note, otherwise the endorsers will be discharged from any further liability for its payment. For example, suppose it is necessary for the bank to have a note for $500.00, which was discounted by the business, protested for non-payment. The liability of the endorser is no longer contingent, but real. When a note is protested, the bank usually requests the endorser of the discounted note to redeem it and pay the protest fees. The question naturally arises as to the proper method for recording the protested note on the books. A protested note does not rank equally with notes receivable that have not been protested. If the books are to show the true condition of the business, the better practice is to open a new account for Notes Receivable Protested and adjust the Notes Receivable and Notes Receivable Discounted accounts. When this method is followed, the following journal entries will illustrate the method of entering the protested note and adjusting the Notes Receivable and Notes Receivable Discounted accounts on the books:

Illustration 330

Mar.	5		**Notes Receivable Protested**	500	00		
			Protest Fees (or personal account)	2	25		
			Cash (or charged at Bank)			502	25

Illustration 331

Mar.	5		**Notes Receivable Discounted**	500	00		
			Notes Receivable			500	00

When the balance sheet is prepared at the end of a business period, both the notes receivable and notes receivable protested will appear as separate items. Should the maker of the protested note later redeem his note in cash, the following journal entry will illustrate the method of recording the entry:

Illustration 332

Mar.	24	√	Cash	502	25		
			Notes Receivable Protested			500	00
			Protest Fees (or personal account)			2	25

Goodwill.—Since a business is built up by years of effort and an expenditure of money, it usually has the patronage of a large number of customers. This may be due in a large measure not only to the politeness and general efficiency of the proprietor and his sales force but to the location of the business, to the variety and quality of the goods, to attractive advertising, and to the general reputation of the business for fair dealings. These are some of the factors which are used in determining what is known as the *Goodwill* of a business. The question of placing a value upon the goodwill of a business seldom arises, except when an established business is purchased or sold and a new partner is admitted. While there are various methods used for determining the value of goodwill, its value will undoubtedly be fixed by agreement before an established business is sold or a new partner is admitted. For example, suppose that William Smith agreed to purchase the business of Wilson and Harris for $12,000.00 in cash, agreeing to take over the assets, $25,500.00, and assume the liabilities, $15,500.00, of the business. Observe that William Smith agreed to pay $12,000.00 to Wilson and Harris for their interest in the business, which amounts to $10,000.00, the excess of the assets over the liabilities. The difference, $2,000.00, represents the amount which William Smith is willing to pay for the *Goodwill* of the business, and would be charged upon his books to the Goodwill account.

Bookkeepers and business men differ as to the disposition of goodwill since in some cases it may appreciate in value, while in others it may depreciate in value. A very common practice is to consider it as an asset of diminishing value. When this method is used, the estimated amount to be written off each year is regularly carried to the Profit and Loss account and a reserve is set up as an offset to Goodwill. Thus, the Goodwill account will show its original value, while the reserve account will show the accumulated amounts set aside which may be used later, if desired, to write the value of the Goodwill off the books. When a reserve account is not set up, the estimated amount to be written off each year is credited to the Goodwill account, thus reducing its value until it is finally written off the books. Some bookkeepers and business men neither increase nor decrease the value of goodwill on their books, but allow it to remain at its original book value.

WHOLESALE FURNITURE BUSINESS

Object of the Set.—The object of this set is to illustrate and explain, as clearly as possible, a system of bookkeeping which may be adapted to the general routine of a wholesale business. While there are various lines of wholesaling, the books kept in one wholesale business do not differ in principle from those kept in another wholesale business. The mastery of wholesale bookkeeping implies the ability to use books of original entry, specially ruled, for recording the transactions as they occur; to use labor-saving forms such as the duplicate sales slips, etc.; to subdivide some and analyze other accounts in order that a more extended profit and loss statement and balance sheet may be prepared from the books; to use controlling accounts; to subdivide the ledger; to use specially ruled ledgers, etc.

Columnar Books are books of original entry which have one or more amount columns in addition to the two general amount columns, the titles of which are general ledger accounts.

It is advisable, in books of original entry, to add an additional amount column for each controlling account in order to post, in total, those items which affect accounts in an auxiliary ledger. It is possible, however, to include additional amount columns in order to facilitate posting to the same account items of a given kind. If these items were not entered in separate columns, they would have to be posted separately. For instance, in the model cashbook on page 180 in the elementary set, the bookkeeper instead of posting each separate item entered in the *Discount on Sales* column to the debit side of the Discount on Sales account, has posted only the total amount of the column. The same principle applies for the items entered in the *Discount on Purchases* column. Any number of additional money columns may be added in a book of original entry where they are warranted by the number of transactions of a given kind, posted to the same account.

Books Used.—The books used in this set are the cashbook, the purchases journal, the sales journal, the journal, the return sales journal, the return purchases journal, the petty cashbook, the notes receivable book, the notes payable book, the trade acceptance receivable book, the trade acceptance payable book, the general ledger, the sales ledger, the purchases ledger, and the check book.

The sales journal, the purchases journal, the notes receivable book, the notes payable book, the general ledger, and the check book have been fully explained and illustrated in previous sets. Since the form and arrangement of the trade acceptance receivable book and the trade acceptance payable book are similar to the notes receivable book and the notes payable book respectively, little special instruction is needed. Any additional instruction needed will be given when the first transaction occurs affecting these books.

Journal.—The columnar form of the journal is used in this set. Columns are provided for *Accounts Payable Debits* and *Accounts Receivable Credits* besides the two *General Ledger* columns as shown in the model journal on page 30. The journal will be used for adjustment entries, for closing entries, and for transactions which can not be properly entered in other books of original entry.

The *Accounts Payable Debits column* is provided for recording debit journal entry items which affect accounts in the purchases ledger. The individual amounts in this column are posted separately to the debit side of the proper accounts in the purchases ledger, and the total is posted to the debit side of the controlling account, Accounts Payable, in the general ledger.

Journal, January 1, 19—

Illustration 333

Date		F	Accounts and Explanation	General Ledger Debits	Accounts Payable Debits	General Ledger Credits	Accounts Receivable Credits
			Andrew H. Haines and Price C. Engle, after careful investigation, have decided to open new books, using special column books, forms, accounts, etc., applicable to a modern wholesale business.				
			The assets and liabilities and the proprietary interest of the partners are shown in the following journal entry.				
Jan.	1	1	Cash	1,231 40			
		3	Notes Receivable	2,489 40			
		7	Accounts Receivable	12,647 56			
		10	Merchandise Inventory	13,467 88			
		21	Interest Earned	214 11			
		12	Land, 234 Lake Street	8,500 00			
		14	Building, 234 Lake Street	7,000 00			
		14	Office Equipment	2,150 00			
		14	Delivery Equipment	2,650 00			
		27	Shipping Supplies	325 00			
		29	Delivery Expense	105 11			
		31	Fuel and Light	211 24			
		33	Insurance Prepaid	324 00			
		35	Advertising	567 33			
		36	Office Supplies	325 67			
		14	Notes Payable			6,211 45	
		17	Accounts Payable			11,045 11	
		37	Interest Paid			112 32	
		39	Salesmen's Salaries			250 00	
		42	Shipping Department Wages			125 00	
		46	Delivery Expense			75 25	
		6	Reserve for Bad Debts			126 48	
		15	Reserve for Depreciation of Building			380 00	
		15	Reserve for Depreciation of Office Equip.			95 00	
		15	Reserve for Depreciation of Delivery Equip.			132 50	
		18	Andrew H. Haines, Capital			18,000 00	
		18	Andrew H. Haines, Personal			327 80	
		19	Price C. Engle, Capital			15,000 00	
		19	Price C. Engle, Personal			327 79	
Jan.	11	6	Reserve for Bad Debts	234 32			
		34	Wilson and Brown				234 32
			Compromise of 12/3, 50c on the dollar.				
			Forwarded	52,443 02		52,208 70	234 32

January 18, 19—

Illustration 333

Date		F	Accounts and Explanation	General Ledger Debits	Accounts Payable Debits	General Ledger Credits	Accounts Receivable Credits
			Brought forward	52,443 02		52,208 70	234 32
Jan.	18	14	Notes Payable	1,000 00			
		17/37	Accounts Payable—William Reese			1,000 00	
			Agreement to renew our 2 months note of 11/18.				
Jan.	24	41	Simpson and Reed		34 50		
		17	Mdse. Purchases			34 50	
			Overcharge on invoice 1/19				
Jan.	31	34	Office Salaries	450 00			
		18	Andrew H. Haines, Personal			225 00	
		19	Price C. Engle, Personal			225 00	
			January salaries				
Jan.	31	19	Trade Acceptance Receivable Discounted	1,811 25			
		6	Trade Acceptance Receivable			1,811 25	
			Adjusting the trade acceptance receivable which have been paid.				
				55,704 27	34 50	55,504 45	234 32
		√	General Ledger	55,704 27			
		17	Accounts Payable	34 50			
		√	General Ledger			55,504 45	
		7	Accounts Receivable			234 32	
				55,738 77		55,738 77	

The *General Ledger Debits column* is provided for recording debit journal entry items other than those entered in the Accounts Payable Debits column. The individual amounts in this column are posted separately to the debit side of the proper accounts in the general ledger. The footing of this column is not posted.

The *Accounts Receivable Credits column* is provided for recording credit journal entry items which affect accounts in the sales ledger. The individual amounts in this column are posted separately to the credit side of the proper accounts in the sales ledger, and the total is posted to the credit side of the controlling account, Accounts Receivable, in the general ledger.

The *General Ledger Credits column* is provided for recording credit journal entry items other than those entered in the Accounts Receivable Credit column. The individual amounts in this column are posted separately to the credit side of the proper accounts in the general ledger. The footing of this column is not posted.

Cashbook.—The columnar form of the cashbook is used in this set. Columns are provided on the debit side for *Cash Dr., Discount on Sales, Accounts Receivable, Sales Credit, Interest Paid*, and *General Ledger*. Enter all cash received in the *Cash Dr.* column; if the amount received is for a cash sale, extend the amount into the *Sales Credit* column; if the

Cash Receipts

Illustration 334

Date		F	Account	Explanation	Cash Dr.	Discount on Sales	Accounts Receivable	Sales Cr.	Interest Paid	General Ledger
19—										
Jan.	1	√	Balance		4,560 41					4,560 41
	3	23	James Gray & Co.	12/20—2%	803 60	16 40	820 00			
	7	4	Notes Receivable	Owen 12/7	425 00					425 00
	10	24	Wright Bros.	12/10	725 60		725 60			
	12	11	Notes Rec. Disc.	Reed 12/13	875 60				4 40	880 00
	14	22	Morey & Co.	1/4—2%	353 19	7 21	360 40			
	17	5	Trade Accep. Rec. Disc.	Race 1/2	1,254 10				6 30	1,260 40
	19	26	Hess & Bright	11/20	125 00		125 00			
	23	6	Trade Accep. Rec.	Kruger 12/24	847 25					847 25
	25	√	Sales	S.D. Johnson	167 50			167 50		
	26	4	Notes Receivable	Frazer 11/27	1,560 00					1,560 00
	26	16	Interest Earned	on above	15 60					15 60
	29	25	Engle & Haines Co.	1/19—2%	627 20	12 80	640 00			
					1) 7,779 64	11) 36 41	4) 2,671 00	9) 167 50	12) 10 70	4,988 25
Feb.	1	√	Balance		4,432 43					4,432 43

amount received is in payment of personal accounts receivable, extend the amount into the *Accounts Receivable* column; if a sales discount is allowed, enter the amount of the discount in the *Discount on Sales* column, and the sum of the net cash received and the sales discount allowed in the *Accounts Receivable* column; if a non-interest bearing note receivable or trade acceptance receivable is discounted, enter the amount of the discount (interest) in the *Interest Paid* column, and the sum of the net cash received and the discount (interest) allowed in the *General Ledger* column.

Columns are provided on the credit side of the cashbook for *Cash Cr.*, *Discount on Purchases*, *Accounts Payable*, *Interest Earned*, *Collection and Exchange*, and *General Ledger*. Enter all cash paid out in the *Cash Cr.* column; if the amount paid is in payment of personal accounts payable, extend the amount into the *Accounts Payable* column; if a purchases discount is allowed, enter the amount of the discount in the *Discount on Purchases* column, and the sum of the net cash paid and the purchases discount allowed in the *Accounts Payable* column; if a non-interest bearing note payable or trade acceptance payable is paid before maturity, enter the amount of the discount (interest) in the *Interest Earned* column, and the sum of the net cash paid and the discount allowed in the *General Ledger* column; or if it be a trade acceptance which is prepaid before acceptance, enter the sum in the *Accounts Payable*

Cash Payments

Date		F	Account	Explanation	Cash Cr.	Discount on Purchases	Accounts Payable	Interest Earned	Collection and Exchange	General Ledger
19—										
Jan.	2	11	Office Supplies	stationery	17 40					17 40
	2	2	Petty Cash Fund	general use	25 00					25 00
	5	10	Freight Inward	bill, 1/5	39 72					39 72
	7	22	James, Lowe & Co.	12/9	879 60		879 60			
	9	√	Collection & Exchange	deposit	4 25				4 25	
	11	5	Notes Payable	Wester 11/12	636 84					636 84
	11	7	Interest Paid	on above note	6 37					6 37
	13	26	Allen Bros.	1/3—2%	1,115 98	22 78	1,138 76			
	15	6	Trade Accep. Pay.	Bauer 1/5	850 00					850 00
	17	13	Salesmen's Salaries	T. L. Martin	100 00					100 00
	17	13	Salesmen's Expenses	T. L. Martin	85 00					85 00
	17	14	Shipping Dept. Wages	payroll	150 00					150 00
	19	27	Frick & Co. Inc.	1/9—3%	1,580 53	48 88	1,629 41			
	20	7	James L. Tucker, Per.	own use	75 00					75 00
	21	25	T. B. Rose prepaid	60-day T. A.	396 00		400 00	4 00		
	22	12	Delivery Supplies	Hess 1/8	12 50					12 50
	29	6	Trade Accep. Pay.	Brown 12/30	321 72					321 72
	30	29	Craven & Son	12/30	1,611 71		1,611 71			
					(11) 7,907 62	(7) 71 66	(6) 5,659 48	(16) 4 00	(12) 4 25	2,319 55

column similarly to T. B. Rose's entry in the model cashbook; if the amount paid is for collection charges, extend the amount into the *Collection and Exchange* column.

The following compound journal entry illustrates the method used in posting from the *Cash Receipts* side of the cashbook. Trace each record from the model cashbook to the model journal entry illustrated below:

Illustration 335

Jan.	31	1	Cash, Dr.,	7,779 64	
		11	Discount on Sales, Dr.,	36 41	
		12	Interest Paid, Dr.,	10 70	
		9	Sales, Cr.,		167 50
		4	Accounts Receivable, Cr.,		2,671 00
		√	General Ledger, Cr., (Posted)		4,988 25

The illustrated model cashbook is known as a self balancing cashbook, as the sum of the three debit columns, *Cash Dr.*, *Discount on Sales*, and *Interest Paid* should equal the sum of the three credit columns, *Sales Cr.*, *Accounts Receivable*, and *General Ledger*.

Post the footing of the *Cash Dr.* column to the debit side of the Cash account in the general ledger; the *Discount on Sales* column to the debit side of the Discount on Sales account in the general ledger; the *Interest Paid* column to the debit side of the Interest Paid account in the general ledger.

Post the footing of the *Sales Cr.* column to the credit side of the Merchandise Sales account in the general ledger; each separate amount in the *Accounts Receivable* column to the proper sales ledger account, and the footing of the column to the controlling account, Accounts Receivable, in the general ledger; post each separate amount in the *General Ledger* column to the proper account in the general ledger. The footing of the *General Ledger* column is not posted.

The following compound journal entry illustrates the method used in posting from the *Cash Payments* side of the cashbook. Trace each record from the model cashbook to the model journal entry illustrated below:

Illustration 336

Jan.	**31**	**6**	**Accounts Payable, Dr.,**	**5,659**	**48**		
		12	**Collection and Exchange, Dr.,**	**4**	**25**		
		√	**General Ledger, Dr., (Posted)**	**2,319**	**55**		
		1	**Cash, Cr.,**			**7,907**	**62**
		7	**Discount on Purchases, Cr.,**			**71**	**66**
		16	**Interest Earned, Cr.,**			**4**	**00**

The sum of the three debit columns, *Accounts Payable*, *Collection and Exchange*, and *General Ledger*, should equal the three credit columns, *Cash Cr.*, *Discount on Purchases*, and *Interest Earned.*

Post each separate amount in the *Accounts Payable* column to the debit side of the proper purchases ledger account, and the footing of the column to the controlling account, Accounts Payable, in the general ledger; the footing of the *Collection and Exchange* column to the debit side of the Collection and Exchange account in the general ledger; each separate amount in the *General Ledger* column to the proper account in the general ledger. The footing of the *General Ledger* column is not posted.

Post the footing of the *Cash Cr.* column to the credit side of the Cash account in the general ledger; the *Discount on Purchases* column to the credit side of the Discount on Purchases account in the general ledger; the *Interest Earned* column to the credit side of the Interest Earned account in the general ledger.

The balance of cash on hand may be found by subtracting the footing of the *Cash Cr.* column on the Cash Payments side of the cashbook from the sum of the footing of the *Cash Dr.* column on the Cash Receipts side of the cashbook and the balance of the previous month. Refer to the model cashbook when ruling and closing the cashbook. While the balance of the previous month is used when proving cash, it must not be used when footing the *Cash Dr.* column and posting to the Cash account. A light line is usually drawn underneath the balance amount, as shown in the illustration on page 32. When the footings of the various columns are posted, the folio of the account is written opposite the footing of each column to show that the amount has been posted as shown in the model cashbook.

Petty Cash Fund.—Since all cash received, no matter how small the amount, should be deposited, thus making the daily deposits exactly equal to the daily cash receipts, and since

all cash payments should be made by check except for very small amounts, there should be provided a method for handling small payments.

The usual method of providing for small payments consists of drawing a check to the order of *Petty Cash* for the estimated amount of currency needed for a certain period of time, usually for one month. A record for the check is made on the *Cash Payments* side of the cashbook, debiting the *Petty Cash* account, and in the *Receipts* column of the petty cashbook. After the check is cashed, the currency is placed in a separate drawer called the *Petty Cash Drawer*. When currency is paid from this drawer, a receipt is procured and a record for it is made in the petty cashbook. At the end of the month, or other period of time if necessary, a list or schedule of the payments, together with the receipts, is prepared, and, if this list is found correct, a check is drawn for the amount of the petty cash payments. Records for the check are made in the cashbook and the petty cashbook and the currency is placed in the *Petty Cash Drawer*, the cash thus being restored to its original amount.

Petty Cashbook.—The petty cashbook is used in this set as a book of original entry. Columns are provided for *Receipts*, *Payments*, *Delivery Expense*, *Sundry Selling Expense*, and *Sundry Office Expense*. All cash received is entered in the *Receipts* column, and all cash paid is entered in the *Payments* column and the amount extended into the proper expense column. At the end of the month, the *Petty Cash* account is credited for the total amount of the petty cash payments, and the special distribution columns are footed and the columns ruled off. The total of the footings of the special distribution columns should agree with the footing of the *Payments* column. The footing of the *Delivery Expense* column, the *Sundry Selling Expense* column, and the *Sundry Office Expense* column, should be posted to their respective accounts in the general ledger. The folio of the account is written opposite the footing of each column to show that the amount has been posted. The petty cashbook is then balanced and the balance written below the double red ruling, in the *Receipts* column, under the next succeeding business date, as shown in Illustration 337.

Petty Cashbook

Illustration 337

Date		F		Receipts	Payments	Delivery Expense	Sundry Selling Expense	Sundry Office Expense
19—								
Jan.	2	√	Cash for fund	20 00				
	5	√	Pencils and pens		1 50			1 50
	12	√	Spark plug		1 25	1 25		
	14	√	Cleaning store windows		1 75		1 75	
	21	√	One gal. oil		75	75		
	28	√	Telegram		1 15			1 15
	31	1	Petty cash, Cr.		6 40			
	31	√	Balance		13 60			
				20 00	20 00	17) 2 00	21) 1 75	23) 2 65
Feb.	1	√	Balance	13 60				
	1	√	Cash for fund	6 40				

Subdivision of the Ledger. —The ledger used in the preceding work is subdivided in this set into a purchases ledger, a sales ledger, and a general ledger.

The *purchases ledger*, often called the *creditors' ledger*, contains a detailed record of the transactions with persons from whom merchandise is purchased on account. The *sales ledger*, often called the *customers' ledger*, contains a detailed record of the transactions with persons to whom merchandise is sold on account. The *general ledger* contains all the accounts of the business which are not kept in the purchases ledger and the sales ledger.

The name *auxiliary* or *subsidiary ledger* is applied to a ledger the individual balance of which is summarized in a controlling account in the general ledger. For example, the purchases ledger is an auxiliary or subsidiary ledger to the general ledger, and is connected with it by the controlling account, Accounts Payable. The balance of the controlling account, Accounts Payable, in the general ledger should always agree with the sum of the individual balances in the purchases ledger. Likewise, the sales ledger is an auxiliary or subsidiary ledger to the general ledger and is connected with it by the controlling account, Accounts Receivable. The balance of the controlling account, Accounts Receivable, in the general ledger should always agree with the sum of the individual balances in the sales ledger.

Sectional Ledgers.—Any auxiliary or subsidiary ledger, when the number of accounts warrant or when detailed information is desired, may in turn be subdivided; as, for example, City Sales Ledger, County Sales Ledger, New Jersey Sales Ledger, Sales Ledger A to G, Sales Ledger H to K, etc., Sales Ledger Eastern, Sales Ledger Foreign, Purchases Ledger A to K, Purchases Ledger L to R, etc.

Balance Ledger.—The purchases ledger and the sales ledger which are used in this set are provided with an additional column for entering the balance of the account. The balance of the account should be written in the *Balance* column after each debit or credit entry. When this is done, the last balance entered shows the total amount due from a customer or owed to a creditor, and should agree with the monthly statement mailed to a customer or received from a creditor. At the end of the month or other period of time, the last balance is included in the exhibit or schedule of balances prepared from the auxiliary ledger.

Illustration 338

S. D. Williams Company

245 State St., Chicago, Ill.

DATE			F	DEBIT	CREDIT	BALANCE	DATE			F	DEBIT	CREDIT	BALANCE
19—							19—						
Dec.	27	N/30,2/10 S	10	698 11		698 11	Jan.	28	N/30,2/10 S	11	420 20		650 70
Jan.	6	C	24		400 00	298 11		31	C	30		230 50	420 20
	9	N/30,2/10 S	11	250 50		548 61							
	14	R. S.	45		20 00	528 61							
	26	C	26		298 11	230 50							

Selecting Accounts.—Since the financial statements are an indispensable aid to successful administration, the accounts of a business should be so planned that the bookkeeper may be able to ascertain, compile, and present in a comprehensive manner all the facts concerning the financial operations and conditions of the business. Such accounts will, when properly arranged, reveal a complete record of the financial transactions and aid the bookkeeper in the preparation of financial statements. The balance sheet, besides showing the financial condition of the business, may be used as an aid in guiding the future financial policies of the business. The profit and loss statement, besides showing the results of operation of a past business

period, may be used also as an aid in comparing items of income with items of cost, and items of expense with items of service, a comparison which is highly important to successful administration.

Business men are coming to realize that scientifically prepared financial statements are desirable. The accounts which have been selected in this set, therefore, permit of the most extensive classification, and will give the necessary drill in the construction of accounts now commonly used in modern bookkeeping. If the preliminary work has been studied and the exercises mastered, there should be little difficulty in classifying the accounts used in this set.

THE WHOLESALE FURNITURE BUSINESS

Tucker and Brown, Proprietors

You have been employed at a weekly salary of $35.00, as bookkeeper for the wholesale furniture business of Tucker and Brown, located at 1008 State Street, Chicago. On the pad of *Incoming Vouchers*, No. 1, you will find a *Power of Attorney*. This is your authority for signing checks and other commercial papers for the business. Read the *Power of Attorney*, brief, and file.

The Articles of Copartnership, a copy of which is on file in the office, contain among other things the following facts: 1. The members of the firm of Tucker and Brown are James L. Tucker and John R. Brown. 2. The capital of the business is to be $30,000.00; James L. Tucker is to invest $20,000.00 and John R. Brown, $10,000.00. 3. The partners are to be allowed salaries, monthly, for their services, as follows: James L. Tucker, $250.00; John R. Brown, $200.00. 4. Each partner shall receive interest at the rate of 6% on his investment and drawing account, whenever the books are closed. 5. The profits and losses are to be divided equally between the partners. 6. The books are to be closed and the statements showing the result and condition of the business are to be prepared semi-annually, as of July 31 and December 31, during the life of the partnership. 7. The partnership is to continue ten years unless dissolved by mutual consent of the partners.

The business of Tucker and Brown has been continued since July 31, 19—, and is at present in active operation. The former bookkeeper closed the books December 31 last, and prepared both the profit and loss statement and the balance sheet, copies of which are on file in the office.

JANUARY 1

No. 1. Since your firm decided to open new books, the former bookkeeper prepared from the old ledger a list of the set of accounts which were used in the previous work, a copy of which will be found on the pad of Incoming Vouchers marked No. 2.

Open the accounts in the general ledger in the order indicated, allowing three accounts to a page unless you are otherwise instructed on form No. 2. Many new accounts will be used in this set, all of which have been fully explained in the preliminary work. When opening the accounts in the ledger, unless you thoroughly understand why each account has been constructed and how to interpret it, review the preliminary work. A bookkeeper when assuming charge of a set of books must not only be familiar with the books which are in use but with the accounts as well. Unless the proper accounts are affected when a transaction is recorded, it will be impossible to prepare the statements correctly.

Prepare an index of the general ledger, allowing one full page for it.

No. 2. The following is a true copy of the balance sheet of Tucker and Brown, prepared at the close of the business period December 31, 19—, revealing both the assets and liabilities, together with the proprietary interest of the partners.

Balance Sheet of Tucker and Brown, December 31, 19—

Illustration 339

Assets				
Cash in Commonwealth National Bank			6,590 75	
Notes Receivable, exhibit C			2,861 40	
Accounts Receivable, exhibit A	12,240 46			
Less Reserve for Bad Debts	142 40		12,098 06	
Mdse. Inventory, exhibit E			16,241 72	
Interest Earned (Accrued), exhibit O			15 75	
Total Current and Accrued Assets				37,807 68
Land, 1008 State Street			5,500 00	
Building, 1008 State Street	6,500 00			
Less Reserve for Depreciation of Building	130 00		6,370 00	
Office Equipment, exhibit F	1,750 00			
Less Reserve for Depreciation of Office Equipment	35 00		1,715 00	
Delivery Equipment, exhibit G	2,100 00			
Less Reserve for Depreciation of Delivery Equipment	144 00		1,956 00	
Total Fixed Assets				15,541 00
Shipping Supplies, exhibit H			475 11	
Delivery Expense, exhibit I			80 50	
Fuel and Light, exhibit P			100 00	
Insurance Prepaid, exhibit J			140 00	
Advertising, exhibit K			187 23	
Office Supplies, exhibit L			183 58	
Total Deferred Assets				1,166 42
				54,515 10
Liabilities				
Notes Payable, exhibit D			5,700 80	
Accounts Payable, exhibit B			18,040 35	
Interest Paid (Accrued), exhibit O			25 53	
Salesmen's Salaries (Accrued), exhibit M			40 00	
Shipping Department Wages (Accrued), exhibit N			13 33	
Delivery Expense (Accrued Wages), exhibit I			13 33	
Total Current and Accrued Liabilities				23,833 34
Proprietary Interest				
James L. Tucker, Capital	20,000 00			
James L. Tucker, Personal	340 88		20,340 88	
John R. Brown, Capital	10,000 00			
John R. Brown, Personal	340 88		10,340 88	
Total Proprietary Interest				30,681 76
				54,515 10

Opening Journal Entry.—Make an opening journal entry similar to the model on page 30, for recording the accounts and the respective amounts of the assets, liabilities, and proprietary interests of the partners.

Prepare a memorandum record in the journal before recording the accounts, giving the name of the firm, the kind of business engaged in, the place where the business is to be conducted, the amount of the proprietors' investment, and the reason for opening special column books.

Post the opening journal entry. For an explanation in the ledger accounts write *Inventory* for those representing deferred assets; *Accrued* for those representing accrued assets and accrued liabilities, and *Balance* for all other accounts except Merchandise Inventory, which does not need an explanation.

Sales Ledger Record.—Consulting the model ledger account on page 36, open the accounts in the sales ledger in the order indicated in Exhibit A, allowing one-fourth of a page for each account. Enter on the proper side of the account the date, terms, and amount due from each customer.

Check the sales ledger against the customers' accounts in Exhibit A, and prove it by comparing the sum of the debit balances of the sales ledger with the balance of the Accounts Receivable account in the general ledger. Prepare an index of the sales ledger.

Exhibit A

Abstract of the Sales Ledger, December 31, 19—

Illustration 340

R. G. Fletcher & Son Co., Racine, Wis., Dec. 27, N/30, 2/10	698	11		
Angerman & Corson, Albion, Mich., Oct. 14, 4/mos.	1,050	08		
The Patten Furniture Co., Harvard, Ill., Dec. 6, N/30	445	76		
James Cummings & Bro., Joplin, Mo., Nov. 7, N/60	375	32		
W. A. Adams Company, Inc., Ann Arbor, Mich., Dec. 20, 2/30, N/60	425	47		
Murphy and Read, Gary, Ind., Dec. 15, 2/20, N/60	310	72		
Caldwell & Co., La Crosse, Wis., Dec. 22, 2/30, N/60	350	14		
William Simpson & Son, Peoria, Ill., Dec. 22, 2/30, N/60	821	50		
Carlile & Craven, Galena, Ill., Oct. 3, N/30	175	39		
Frick, McClay & Co., Evansville, Ind., Nov. 25, N/30	976	75		
H. B. Frazer & Co., Omaha, Nebr., Dec. 12, 3/30	1,150	00		
Allen & Son, Madison, Wis., Dec. 18, on a/c	1,571	95		
Wright & Wright, Detroit, Mich., Dec. 24, 3/30	134	16		
Quincy Furniture Co., Quincy, Ill., Nov. 9, S/D 60 days	1,472	35		
Collins & Phillips, Zanesville, Ohio, Dec. 23, 2/10	1,239	92		
D. B. Martin Co., Decatur, Ill., Oct. 19, on a/c	1,042	84		
Accounts Receivable (General Ledger)			12,240	46

Purchases Ledger Record.—Open the accounts in the purchases ledger in the order indicated in Exhibit B, allowing one-fifth of a page for each account. Enter the date, terms, and amount of each purchase on the proper side of the account.

Check and prove the purchases ledger with the Accounts Payable account in the general ledger, in a way similar to that used in checking and proving the sales ledger with the Accounts Receivable account. Prepare an index of the purchases ledger.

Exhibit B

Abstract of the Purchases Ledger, December 31, 19—

Illustration 341

The Armstrong Furniture Co., St. Paul, Minn., Dec. 3, a/c	**1,211 40**	
Bauer & Wister, Milwaukee, Wis., Dec. 20, 2/30, N/60	**2,940 75**	
Keystone Furniture Co., Philadelphia, Pa., Dec. 31, 3/30, N/60	**235 34**	
I. P. Thomas & Son Co., Detroit, Mich., Dec. 24, 2/30, N/60	**1,820 48**	
Joseph L. Shoemaker, Inc., Buffalo, N. Y., Dec. 3, SD/30	**1,410 70**	
Shaw-Walker Co., Cincinnati, Ohio, Dec. 14, N/60, 1/30	**2,750 00**	
The Hub Manufacturing Co., Boston, Mass., Dec. 17, N/60, 2/30	**821 72**	
The Union Furniture Co., Indianapolis, Ind., Dec. 27, Net	**2,932 16**	
Kruger & Blind Co., Omaha, Nebr., Dec. 24, 2/30, N/60	**2,641 80**	
Utility Furniture Co., Cleveland, Ohio, Dec. 21, 2/15, N/30	**1,276 00**	
Accounts Payable (General Ledger)		**18,040 35**

Exhibit C

Abstract of the Notes Receivable Book, December 31, 19—

1. Note of Webster and Sullivan, dated Gary, Ind., November 3, drawn in favor of Tucker and Brown, for $760.80 with interest, payable 90 days from date, at the Second National Bank. (Accrued interest, $7.35.)

2. Note of Brown and Smith Company, dated Council Bluffs, Iowa, November 16, drawn in favor of Tucker and Brown, for $840.60 with interest, payable 90 days from date, at the Merchants Trust Co. (Accrued interest, $6.30.)

3. Note of MacFarland Bros., dated Springfield, Ill., December 21, drawn in favor of Tucker and Brown, for $1,260.00 with interest, payable 60 days from date, at the Citizens Bank. (Accrued interest, $2.10.)

Total interest accrued on notes receivable, $15.75.

Notes Receivable Book Record.—Enter the notes receivable in the notes receivable book in the order indicated in Exhibit C. These notes will be found on the pad of Incoming Vouchers.

Foot and rule the amount column of the notes receivable book, and write *Notes Receivable Debited* opposite the total. This is done in order that these items may not be posted again to the controlling account. Check and prove the notes receivable book with the Notes Receivable account in the general ledger, as previously instructed.

Exhibit D

Abstract of the Notes Payable Book, December 31, 19—

1. Note in favor of Weaver and Wilson, dated Chicago, Ill., November 3, drawn by Tucker and Brown, for $1,460.56 with interest, payable 60 days from date, at the Commonwealth National Bank. (Accrued interest, $14.12.)

2. Note in favor of Roberts, Williams Company, dated Chicago, Ill., December 11, drawn by Tucker and Brown, for $979.40 with interest, payable 30 days from date, at the Commonwealth National Bank. (Accrued interest, $3.26.)

3. Note in favor of Gross Company, Inc., dated Chicago, Ill., December 16, drawn by

Tucker and Brown, for $3,260.84 with interest, payable 60 days from date, at the Commonwealth National Bank. (Accrued interest, $8.15.)

Total interest accrued on notes payable, $25.53.

Notes Payable Book Record.—Enter the notes payable in the notes payable book in the order indicated in Exhibit D. Since these notes were issued to others they will not be found among your business papers.

Foot and rule the amount column of the notes payable book, and write *Notes Payable Credited* opposite the total. This is done in order that these items may not be posted again to the controlling account. Check and prove the notes payable book with the Notes Payable account in the general ledger, as previously instructed.

No. 3. Cash Record.—Following the model cashbook on page 32, enter in the cashbook the amount of cash in the Commonwealth National Bank as shown on the bank statement and in the balance sheet. Enter the amount of the cash balance on the stub of the check book, and in the pass book if a regular bank is not provided.

The books are now ready to receive the records for the current business period.

TRANSACTIONS

JANUARY 2

No. 4. Check from Collins and Phillips in full payment of bill of December 23, less 2% discount.

Before making the entry in your cashbook for the cash received from Collins and Phillips, turn to their account in the sales ledger and verify the amount. Always verify with the proper ledger account the amount of cash received or paid out. Refer to James Gray and Company's record in the model cashbook for the proper form of entry.

No. 5.—Notice from the Commonwealth National Bank that our interest bearing note in favor of Weaver and Wilson is at the bank for collection.

Draw a check in favor of the Commonwealth National Bank for the amount of the note and interest. Sign the firm's name to all checks and vouchers, per your name. Refer to the transaction of January 11 in the model cashbook for the proper form of entry. Write *Paid Jan. 2* in the *Remarks* column in the notes payable book.

No. 6.—Pay, by check, Jones and Baker's bill for books and stationery.

Review carefully the *set of accounts* to be used in this set. Unless you know what accounts are to be used it will be impossible to record the transactions properly.

No. 7.—Draw a check for $25.00 for general office use.

Review *Petty Cash Fund* on page 34. If no bank is conducted, use form No. 7 on the pad of Incoming Vouchers for the petty cash in this set. Make the proper entries in the cashbook and the petty cashbook. File the check and the petty cash.

Post all entries to date.

JANUARY 3

No. 8—Duplicate charge bill of Collins and Phillips.

Copy on card No. 8b the selling price-list assigned by your instructor from the numbered lists found in the text book on page 62. Review transaction No. 6 on page 123 in the elementary set. Complete the duplicate charge bill by filling in the unit prices, the extensions and the total amount. Enter the duplicate charge bill in the sales journal, beginning with the number 250, and number all succeeding duplicate charge bills consecutively. In this set

enter only the date, the serial number of the duplicate charge bill, the name of the customer, and the amount, writing the amount in the *Items* column. The daily total is extended into the *Total* column. The customer's account in the sales ledger will be charged directly from the duplicate charge bill instead of from the sales journal. Only the footing of the sales journal will be posted at the end of the month.

Turn to Collins and Phillips' account in the sales ledger and post from the duplicate charge bill directly to their account. Enter the terms of the sale in their account. Enter the page of the ledger after Ledger Folio (L.F.) on the duplicate charge bill to indicate that it has been posted. File it in the envelope marked *Sales Binder*.

Review *Trade Acceptance* on page 213 in the elementary set. Since the goods were sold subject to a 30-day trade acceptance, prepare it and have your instructor accept it for Collins and Phillips. While in actual business the trade acceptance would be mailed with the bill to the customer for acceptance and the record made for it after its return, your instructor will accept it for them in order that the entries may be made and fully explained at the time the transactions are given.

Make the proper entry for the trade acceptance in the trade acceptance receivable book, and file the trade acceptance in the proper envelope.

No. 9.—Frick, McClay & Company's bill of November 25 is due.

Draw a sight draft on them for the amount of their bill, endorse it, and leave it at the bank for collection. In the *Explanation* column of their account, write, in lead pencil, *1/3,S.D./Col.*

No. 10.—Draw a check for a 19— driver's license in favor of D. O. Strawbridge, State Highway Department, $40.00.

Debit *Delivery Expense* account.

No. 11.—Check from Allen & Son in part payment of their bill of December 18.

No. 12.—Invoice from the Hub Manufacturing Company.

Review *Purchases Journal* on page 79 in the elementary set. Enter the invoice in the purchases journal, beginning with the number 125, and number all succeeding invoices consecutively. Fold the invoice, face outward, and place it in the envelope marked *Invoices Payable.* All unpaid invoices should be filed in this envelope.

Invoices may be filed in alphabetical order or by department. If each creditor is assigned a special folder, all invoices received from any one firm may be filed together. The same is true when numerical, locational or other method is used.

No. 13.—Pay freight bill by check, $5.88.

Tucker and Brown have made special arrangements with the National Transportation Company to pay all freight charges each Saturday for goods received during the week. Unless a special agreement is made, the transportation company usually requires that all freight charges be paid before the goods are removed from the freight station. Debit the *Freight Inward* account for all freight charges on goods purchased.

No. 14.—Deposit all checks on hand, collection 1/10%.

Review *Deposits* on page 158 in the elementary set. When listing your checks on the deposit ticket, use the numerical system by means of the serial numbers which are printed on the checks. While the *Receiving Teller* usually deducts the collection charges on your deposit ticket, if there is no bank you will deduct the charges.

Enter the checks separately on the stub of the check book, using the firm's name instead of the serial numbers, total the amount, and deduct the collection charges, so that the entry can be easily audited. Follow this plan when making your deposits.

Prove your cash and post all transactions to date.

JANUARY 5

No. 15.—Pay, by check, the invoice of the Utility Furniture Company, December 21, less 2% discount.

No. 16.—Cash sale to Stanley D. Johnson.

It frequently happens that a wholesale house sells goods (1) to business firms whose financial standing would not warrant the opening of a regular charge account; (2) to business firms whose financial standing has not been determined; and (3) to personal friends. When sales of this nature occur the cashbook is usually designed with a special column for cash sales, while the duplicate cash sale slips are filed in a separate binder from those of the regular charge customers. In this set the cash sales will be recorded in the cashbook and the amount extended into the *Sales* column.

No. 17.—Letter from the Commonwealth National Bank, enclosing draft.

This draft is drawn by Joseph L. Shoemaker, Inc., Buffalo, with our permission. If the amount of the draft is correct, issue a check in favor of the Commonwealth National Bank. Debit Joseph L. Shoemaker, Inc., in the cashbook.

Some business houses have drafts, notes, trade acceptances, etc., made payable at the bank, charged to their account. Others issue checks in payment. The latter method will be followed in this set.

No. 18.—Petty cash memorandum.

Enter each item separately in the petty cashbook, debiting the proper account.

Prove cash and post all transactions to date.

JANUARY 6

Nos. 19, 20.—Duplicate charge bills, W. A. Adams Company, Inc., and Wright and Wright.

No. 21.—Discount the note of McFarland Bros. at the Commonwealth National Bank, and receive credit for the proceeds.

Since this is a 60-day interest-bearing note, find the interest on the face of the note, $1,260.00, for 60 days, and add it to the face of the note; then find the interest (discount) on the amount (face plus the 60-day interest) from January 6 to the day of maturity, and deduct it from the amount. This will give the net proceeds.

Before recording this transaction, review *Contingent Liability* on page 25, and the model cashbook for the form of the entry. In the cashbook, credit *Notes Receivable Discounted* for the face of the note, and *Interest Earned* for the difference between the amount of interest for 60 days and the amount of interest (discount) for 44 days.

Add the proceeds of the note as a deposit on the stub of the check book. Be sure to enter the face of the note and the interest items on the left stub of the check book, so that the entry can be easily audited. If there is no bank, enter the proceeds in your pass book. Make the proper memorandum entry in the *Remarks* column of the notes receivable book.

No. 22.—Check from R. G. Fletcher & Son Company in full payment of their bill of December 27, less 2% discount.

No. 23.—Pay, by check, the bill of the Pacific Refining Company for gasoline for the delivery truck.

JANUARY 7

No. 24.—Invoice of merchandise purchased from Joseph L. Shoemaker, Inc.

Verify and check the invoice, and, if it is correct, accept the 30-day trade acceptance for your firm. Record the trade acceptance in the trade acceptances payable book. Mail the trade acceptance to Joseph L. Shoemaker, Inc., by filing it in the envelope marked *Outgoing Papers.*

No. 25.—Pay, by check, bill of $150.00 from your salesman, T. B. Wallace, for expenses.

No. 26.—Received from the Patten Furniture Company, Harvard, Ill., their 30-day interest-bearing note for $445.76, in payment of their bill of December 6, due to-day.

No. 27.—Received from D. B. Martin Company, Decatur, their check for $800.00, to apply on account.

No. 28.—Deposit the cash and checks on hand. Collection charges 1/10% on the checks.

Prove cash and post all entries to date.

JANUARY 8

No. 29.—Pay petty cash memorandum.

No. 30.—Cash sale to Thomas E. Belfield.

No. 31.—Pay the following by check, for private use: James L. Tucker, $250.00; John R. Brown, $250.00.

No. 32.—Notice from the Commonwealth National Bank that it has collected your sight draft of January 3 on Frick, McClay & Company, $976.75, collection charges, 1/10%.

JANUARY 9

No. 33.—Invoice from the Union Furniture Company.

No. 34.—Duplicate charge bill of R. G. Fletcher & Son Company.

No. 35.—Received from James Cummings & Bro., Joplin, Mo., their 20-day note for $200.00 and their check for $175.32 in payment of bill of November 7.

No. 36.—Bill of November 9 of the Quincy Furniture Company, Quincy, Ill., was sold, subject to sight draft in 60 days.

Draw a sight draft on them for the amount of their bill, endorse it, and leave the draft at the Commonwealth National Bank for collection.

JANUARY 10

No. 37.—Pay freight bill by check, $23.32.

No. 38.—Pay roll.

Issue a check for the amount of the pay roll, and if there is no bank, file the check in the envelope marked *Outgoing Papers.* Make the proper cashbook entries from the pay roll.

No. 39.—One Mahogany Rocker and one Mahogany Library Table, received from the Union Furniture Company, Indianapolis, were of inferior workmanship.

Write a letter explaining why you are returning them. Prepare a bill at cost price and enclose it with your letter. Make a record of the bill in the return purchases journal as follows:

Return Purchases Journal

Illustration 342

19—							
Jan.	10		**Union Furniture Company, Indianapolis, Ind.**				
			1 Mahogany Rocker	8	50		
			1 Mahogany Library Table	16	00	24	50

No. 40.—The note in favor of Roberts, Williams Company is due to-day.

Pay the note and interest by check.

JANUARY 12

No. 41.—Discount Collins and Phillips' trade acceptance at the bank, and receive credit for the proceeds.

Credit Trade Acceptance Receivable Discounted account.

No. 42.—Check from H. B. Frazer & Company in payment of their bill of December 11, less 3% discount.

No. 43.—Letter and Chicago draft from Carlile and Craven, Galena.

Carlile and Craven effected a compromise with their creditors by agreeing to pay 50 cents on the dollar, which Tucker and Brown accepted in their letter of December 15.

Make an entry in the cashbook for the amount of the cash received, $87.70, crediting Carlile and Craven. Make another entry in the journal for the balance of their account, debiting *Reserve for Bad Debts* and crediting Carlile and Craven. Review *Reserve for Bad Debts* on page 23.

JANUARY 13

No. 44.—Cash sale to Andrew Haines.

No. 45.—Duplicate charge bill of Carlile and Craven Company, Galena.

Carlile and Craven, after having made a compromise settlement with their creditors, entered into a copartnership agreement with W. O. Weaver, who is to supply additional capital. The new partnership will continue the old business under the new name of Carlile and Craven Company.

Knowing that we will not, at this time, ship them goods on account, they have requested us to ship the goods subject to a bank order.

Order Bill of Lading. The order bill of lading is made out in sets of three, similarly to the straight bill of lading fully explained and illustrated in the elementary sets. While the straight bill of lading is non-negotiable, the order bill of lading is negotiable. That is, it is made out to Order of and contains the additional provision that "*the surrender of the Original Order Bill of Lading properly indorsed shall be required before the delivery of the property.*" Otherwise it contains the same conditions as the straight bill of lading.

Heading of the Order Bill of Lading:

Consigned to Order of *The Commonwealth National Bank*

Destination *Galena* State of *Illinois* County of

Notify *Carlile and Craven Company*

At *Galena* State of *Illinois* County of

Route *I. C.* Car Initials *R. I.* Car No. *2175*

Prepare a sight draft in favor of the Commonwealth National Bank for the amount of the bill, pin it to the order bill of lading, and leave both at the bank for collection.

Debit Carlile and Craven Company's account for the amount of the bill.

No. 46.—Wright and Wright, Detroit, return for credit one Mahogany Library Table and one Mahogany Davenport.

These goods were returned with our permission because they were of inferior workmanship. They were received this morning and properly checked. Send Wright and Wright a *Credit Memorandum*, itemizing the articles accepted for credit as previously instructed.

Make an entry in the return sales journal similar in form to the record made in the return purchases journal for transaction No. 39.

No. 47.—Pay, by check, invoice of Shaw-Walker Company, Cincinnati, December 14, less 1% discount.

No. 48.—Duplicate charge bill of Frick, McClay & Company. Note the terms.

No. 49.—Deposit the cash and checks on hand. Exchange on out-of-town checks, 1/10%. Prove your cash and post all entries to date.

JANUARY 14

No. 50.—Letter and check from Murphy and Read, Gary.

Refer to their account for the terms of the bill. When part payment is made on a bill subject to a discount, the amount of the payment received is divided by 100%, less the rate of discount. In this instance, the rate is 2%. Divide the amount of the check by 98% (100% − 2%) and the quotient is the amount with which the customer is credited (as $200.00 ÷ .98 = $204.08). The difference between $204.08 and the amount of the check, $200.00, is the discount. Give them credit for $204.08 in the *Accounts Receivable* column of the cashbook.

No. 51.—Letter from R. G. Fletcher & Son Company, Racine, noting a shortage of two mattresses in their order.

After the actual number of hair and felt mattresses in stock were compared with our Stock Record cards, it was found that the shipping clerk failed to ship these mattresses, since there are two additional ones in stock. Make an entry in the return sales journal, crediting R. G. Fletcher & Son Company, in order that we may adjust their account. Mail a *Credit Memorandum.*

No. 52.—Pay the Union Furniture Company's invoice of December 27, $2,932.16, by sending them your 15-day note for $1,500.00 and your check for the balance.

No. 53.—Invoice from the Utility Furniture Company. Note the terms.

JANUARY 15

No. 54.—Check from Angerman and Corson, Albion, in full payment of their bill of October 14.

No. 55.—Duplicate charge bill, H. B. Frazer & Company. Note the terms.

No. 56.—Duplicate charge bill of Allen & Son.

No. 57.—Petty cash memorandum.

JANUARY 16

No. 58.—Discount Frick, McClay and Company's trade acceptance at the bank and receive credit for the proceeds.

No. 59.—Pay, by check, Levy & Company's bill for repairs to the truck.

No. 60.—Invoice from Shaw-Walker Company, Cincinnati.

No. 61.—Notice from the bank that it has collected your sight draft of January 9 drawn on the Quincy Furniture Company.

No. 62.—Pay, by check, the Hub Manufacturing Company's invoice of December 17, less 2% discount.

JANUARY 17

No. 63.—Pay, by check, freight bill, $30.95.

No. 64.—Return for credit to Shaw-Walker Company, Cincinnati, one brass bed which was found to be of inferior workmanship.

Write a letter explaining why you are returning the brass bed and ask them to send you a credit memorandum. Make the proper record for it.

No. 65.—Deposit all checks on hand. Collection charges on checks, 1/10%. Post all entries to date.

JANUARY 19

No. 66.—Notice from the bank that it has collected your sight draft drawn on Carlile and Craven Company, Galena.

No. 67.—Pay, by check, Bauer and Wister's invoice of December 20, less 2% discount.

No. 68.—Give the Armstrong Furniture Company your 30-day note in payment of their invoice of December 3.

No. 69.—Duplicate charge bill. Note the terms.

No. 70.—Duplicate charge bill of the Quincy Furniture Company, Quincy.

JANUARY 20

No. 71.—Cash sale to R. O. Howell & Company.

No. 72.—Check from W. A. Adams Company, Inc., Ann Arbor, in full payment of their bill of December 20.

No. 73.—Discount Brown and Smith's note of November 16 at the bank and receive credit for the proceeds.

No. 74.—Pay petty cash memorandum.

No. 75.—Pay, by check, Kinkerter and Sheppard Company's bill for shipping department supplies.

No. 76.—Pay, by check, Smedley Bros.' bill for lumber for the shipping department.

JANUARY 21

No. 77.—Check from William Simpson & Son in payment of their bill of December 22 less discount.

No. 78.—Pay, by check, the balance of the Union Furniture Company's invoice of January 9.

No. 79.—Invoice of Kruger and Blind Company, Omaha.

No. 80.—Check from Allen and Son in payment of balance of bill of December 18.

JANUARY 22

No. 81.—Duplicate charge bill of D. B. Martin Company, Decatur.

No. 82.—Duplicate charge bill of William Simpson & Son, Peoria.

No. 83.—Check from Caldwell and Company in payment of bill of December 22, less discount.

No. 84.—Deposit the cash and checks on hand. Exchange charges on checks, 1/10%.

Prove your cash and post all entries to date.

Forwarding. When a page of a cashbook is about full, draw a single red line across the money columns underneath the lowest item. Draw another single red line, on a level with the first one, across the other money columns on the opposite page. In the space beneath the single horizontal red lines, write in black ink the total amount of each column, with the word *Forwarded* in the *Explanation* column.

Transfer the footings on the cash receipts side to the first line at the top of the next page; likewise transfer the footings of the cash payments side to the first line on the following page. In the *Explanation* column, on the same line with the totals on both sides, write *Brought forward.*

The same method is followed when a page of the sales journal, the purchases journal, the notes receivable book, the notes payable book, etc., is about full.

Since the Cash Payments side of your cashbook is about full, forward the footings of both the Cash Receipts and Cash Payments sides, following the instructions given above.

JANUARY 23

No. 85.—Pay, by check, I. P. Thomas and Son Company's invoice of December 24, less discount.

No. 86.—Invoice from the Armstrong Furniture Company, St. Paul, on account.

No. 87.—Invoice from Bauer and Wister, Milwaukee.

No. 88.—James Cummings and Bro.'s note will be due January 26. Leave it at the bank for collection.

No. 89.—Pay, by check, Kruger and Blind Company's invoice of December 24, less discount.

No. 90.—Invoice from Joseph L. Shoemaker, Inc., Buffalo. Note the terms.

Instead of accepting the trade acceptance, prepay it by writing your check for the amount of the trade acceptance less the discount from January 23 to the date of maturity. Refer to T. B. Rose's entry in the model cashbook for the proper method of recording this transaction. Enter the interest (discount) in the Interest Earned column and the total amount of the invoice in the Accounts Payable column.

JANUARY 24

No. 91.—Duplicate charge bill of Carlile and Craven Company, Galena.

Note the terms of the sale. Prepare the sight draft and pin it to the order bill of lading following the instructions previously given.

No. 92.—Cash sale to R. D. Smith, Chicago.

No. 93.—Check from Wright and Wright in payment of their bill of December 24, less 3% discount.

No. 94.—Pay roll. Issue a check in payment.

No. 95.—Deposit all cash and checks on hand. Collection on checks, 1/10%.

No. 96.—Pay, by check, freight bill. Post all entries to date.

JANUARY 26

No. 97.—Check from D. B. Martin Company for balance of bill of October 19.

No. 98.—Notice from the bank that it has collected James Cummings and Bro.'s 20-day note of January 6. Collection charges, 1/10%.

No. 99.—Webster and Sullivan's note of November 3 is due February 1. Endorse it and leave it at the bank for collection.

JANUARY 27

No. 100.—Our note in favor of the Union Furniture Company for $1,500.00 will be due January 29. Write a letter requesting them to accept our 30-day interest-bearing note in payment.

No. 101.—Pay petty cash memorandum.

No. 102.—Duplicate charge bill of James Cummings and Bro., Joplin.

No. 103.—Duplicate charge bill of the Patten Furniture Company, Harvard.

JANUARY 28

No. 104.—Check from R. G. Fletcher and Son Company, Racine, to apply on account.

No. 105.—Pay, by check, Kruger and Blind Company, $200.00, to apply on account.

No. 106.—Notice from the bank that it has collected our sight draft of January 24 on Carlile and Craven Company, Galena.

No. 107.—Pay, by check, Lockyear and Rhawn's bill for insurance on delivery truck.

Debit *Insurance Prepaid* account.

JANUARY 29

No. 108.—Letter from the Union Furniture Company, Indianapolis, agreeing to accept our 30-day interest-bearing note in payment of our note of January 14, due to-day.

Renewal of a Note.—Review carefully the explanation given on page 26. Write a note for $1,500.00 with interest, dated January 29, 30 days after date, and mail it to the Union Furniture Company.

Make a record in the journal, debiting the Notes Payable account for the old note, and crediting the Accounts Payable account (and Union Furniture Company account), thus reversing the record made for the old note in the notes payable book. It will be necessary to credit both the Accounts Payable account and the Union Furniture Company's account. Since the Accounts Payable account is the controlling account for the purchases ledger, items affecting the controlling account must affect an account (or accounts) in the purchases ledger for a like amount. Refer to the entry of January 18 in the model journal for the proper form of entry. Mark the old note *Paid* in the *Remarks* column of the notes payable book.

Enter the new note in the notes payable book and post it as previously instructed. Study this transaction carefully.

No. 109.—Invoice from the Utility Furniture Company, Cleveland.

No. 110.—Check from Allen and Son, on account.

No. 111.—Deposit all checks on hand. Collection charges 1/10%.

Prove cash and post all entries to date.

JANUARY 30

No. 112.—Pay, by check, the Keystone Furniture Company's invoice of December 31, less discount.

No. 113.—Duplicate charge bill of Angerman and Corson, Note the terms.

No. 114.—Duplicate charge bill of Caldwell and Company, La Crosse.

JANUARY 31

No. 115.—Pay, by check, James L. Tucker, $250.00; John R. Brown, $200.00, for private use.

No. 116.—Pay, by check, freight bill.

No. 117.—Pay, by check, telephone bill.

No. 118.—Credit James L. Tucker and John R. Brown for their January salaries in the journal as per the partnership agreement.

Review transaction No. 134 on page 222 in the elementary set. Debit *Office Salaries* account.

Post all entries to date.

No. 119.—Statement from the Commonwealth National Bank.

Prepare a reconciliation of the bank statement as explained on page 165 in the elementary set. If so instructed by your teacher, balance your pass book as follows. First, rule a single red line across the money column, total the column, and compare the amount with the deposits on the bank statement. If the amount is correct, write *Total Deposits* in the explanation space and extend the amount below the single red ruling. Second, on the next line, write *Total Checks* and extend the amount shown on the bank statement below the total

deposits. Rule double red lines below the amount of total checks and on the following blue line write *Feb. 1, Balance.* Extend the amount of the balance into the money column.

Many of the modern banks to-day, when they prepare bank statements, do not balance the pass book as shown in this text unless requested to do so by the depositor.

No. 120.—By referring to the trade acceptance receivable book, determine what trade acceptances that were discounted have been paid. Review page 25. Prepare a journal entry, debiting Trade Acceptance Receivable Discounted account and crediting Trade Acceptance Receivable account.

Posting Totals.—Since all the daily entries have been posted, there remain to be posted only the footings of the notes receivable book, the notes payable book, the trade acceptance receivable book, the trade acceptance payable book, the return purchases journal, the return sales journal, the sales journal, and the purchases journal; and the footings of the special columns in the journal, the petty cashbook, and the cashbook. These are all general ledger items.

Closing the Books of Original Entry.—Foot and rule the books of original entry, and post the total of each book or special column, following the instructions given below.

Journal.—The closing entry in the journal contains a credit item, Accounts Receivable. Refer to the model journal on page 31 for the method of closing it. Make the closing entry and rule the journal. After posting, check each item posted to the ledger, to see that no errors have been made.

Cashbook.—Balance and rule the cashbook as shown in the model form on page 32. See that the sum of the debit footings equals the sum of the credit footings, as explained on page 33. Post the footings of each special column to the proper ledger account in the general ledger. After posting, check each item posted from the cashbook to the ledger.

Purchases Journal.—Foot the purchases journal. Make the closing entry, Mdse. Purchases, (Dr.) $———, Accounts Payable, (Cr.), and rule the purchases journal. Post these items. After posting, check each item posted from the purchases journal to the ledger.

Sales Journal.—Foot the sales journal. Make the closing entry, Accounts Receivable, (Dr.) $———, Mdse. Sales, (Cr.), and rule the sales journal. Post these items. After posting, check each item posted from the sales journal to the ledger.

Notes Receivable Book.—Foot the notes receivable book. Make the closing entry, Notes Receivable, (Dr.) $———, Accounts Receivable, (Cr.), and rule the notes receivable book. Post these items. After posting, check each item posted from the notes receivable book to the ledger.

Notes Payable Book.—Foot the notes payable book. Make the closing entry, Accounts Payable, (Dr.) $———, Notes Payable, (Cr.), and rule the notes payable book. Post these items. After posting, check each item posted from the notes payable book to the ledger.

Trade Acceptance Receivable Book.—Foot the trade acceptance receivable book. Make the closing entry, Trade Acceptance Receivable, (Dr.) $———, Accounts Receivable, (Cr.), and rule the trade acceptance receivable book. Post these items. After posting, check each item posted from the trade acceptance receivable book to the ledger.

Trade Acceptance Payable Book.—Foot the trade acceptance payable book. Make the closing entry, Accounts Payable, (Dr.) $———, Trade Acceptance Payable, (Cr.), and rule the trade acceptance payable book. After posting, check each item posted from the trade acceptance payable book to the ledger.

Return Purchases Journal.—Foot the return purchases journal. Make the closing

entry, Accounts Payable, (Dr.) $———, Return Purchases, (Cr.), and rule the return purchases journal. After posting, check each item posted from the return purchases journal to the ledger.

Return Sales Journal.—Foot the return sales journal. Make the closing entry, Return Sales, (Dr.) $———, Accounts Receivable, (Cr.), and rule the return sales journal. Post these items. After posting, check each item posted from the return sales journal to the ledger.

Petty Cashbook.—Balance and rule the petty cashbook as shown in the model form on page 35. Post the footing of each special column to the proper ledger account in the general ledger. After posting, check each item posted from the petty cashbook to the ledger.

Trial Balance.—Since you have not only posted the daily transactions but the total of the special columns and books as well, pencil foot the accounts in the general ledger and prepare a trial balance. *Have your trial balance approved before proceeding further.*

Special Instructions.—When you have had your trial balance approved, proceed as follows:

Abstract of the Sales Ledger, Exhibit A.—Prepare on loose journal paper a schedule of the balances of the sales ledger similar in form to Exhibit A on page 39. Compare the footing with the balance of the controlling account, Accounts Receivable, in the general ledger.

Abstract of the Purchases Ledger, Exhibit B.—Prepare on loose journal paper a schedule of the balances of the purchases ledger similar in form to Exhibit B on page 40. Compare the footing with the balance of the controlling account, Accounts Payable, in the general ledger.

Abstract of the Notes Receivable Book, Exhibit C.—Prepare on loose journal paper a schedule of the unpaid notes receivable similar in form to Exhibit C on page 40. Compare the footing with the balance of the controlling account, Notes Receivable, in the general ledger. If there be a balance in the Notes Receivable Discounted account, deduct it from the balance of the Notes Receivable account, if the discounted notes have not been included in your schedule.

Abstract of the Notes Payable Book, Exhibit D.—Prepare on loose journal paper a schedule of the unpaid notes payable similar in form to Exhibit D on page 40. Compare the footing with the balance of the controlling account, Notes Payable, in the general ledger.

Abstract of the Trade Acceptance Receivable Book, Exhibit E.—Prepare on loose journal paper a schedule of the unpaid trade acceptances receivable similar in form to Exhibit C on page 40. Compare the footing with the balance of the controlling account, Trade Acceptance Receivable, in the general ledger. If there be a balance in the Trade Acceptance Receivable Discounted account, deduct it from the balance of the Trade Acceptance Receivable account, if the discounted trade acceptances have not been included in your schedule.

Abstract of the Trade Acceptance Payable Book, Exhibit F.—Prepare on loose journal paper a schedule of the unpaid trade acceptances payable similar in form to Exhibit D on page 40. Compare the footing with the balance of the controlling account, Trade Acceptance Payable, in the general ledger.

Admission of a New Partner.—James L. Tucker and John R. Brown have entered into a partnership agreement with William R. Boyd, and a copy of the agreement has been filed in the office. The clauses and conditions of the old partnership agreement have been included in the new agreement, with these additions:—

1. William R. Boyd is to invest $12,000.00 in cash, February 2. 2. Mr. Boyd is to allow James L. Tucker and John R. Brown $5,000.00 for the goodwill of the business. This sum is to be divided equally between them. Review Goodwill on page 28. 3. William R.

Boyd is to be allowed a salary, monthly, for his servics, $225.00. 4. The profits and losses, are to be divided equally among the partners. 5. The books are to be closed as of January 31 and the profits or losses divided as per the old partnership agreement.

Closing the Books.—At the time when a legal change takes place in a business it is customary to close the books. In order to determine the true profit, inventories have been prepared, not only for the value of the merchandise on hand, but for other property which has been charged to the various expense accounts during the current business period. These items have been fully explained in the preliminary work when Deferred Assets, Deferred Liabilities, Accrued Assets, and Accrued Liabilities were fully explained and illustrated. A careful review of them will aid greatly in the preparation of the adjusting entries which are to follow.

Inventories, Accruals and Adjusting Entries, January 31, 19—

Merchandise Inventory, January 31, 19—	$17,704.40
Insurance Expired:	
On stock of merchandise (one month)	7.00
On building (one month)	4.66
On delivery equipment (one month)	12.50
Accrued Assets:	
Interest accrued on notes receivable	13.15
Accrued Liabilities:	
Interest accrued on notes payable	32.00
Accrued payroll:	
Salesmen's salaries	60.00
Shipping department wages	10.00
Delivery department wages	10.00
Office salaries	60.00
Deferred Assets:	
Shipping supplies	361.75
Delivery department supplies	83.75
Advertising matter on hand	106.03
Office supplies	162.11
Fuel on hand	75.00
Depreciation:	
On building (one month)	8.75
On office equipment (one month)	16.25
On delivery equipment (one month)	31.50
Reserve for Bad Debts:	
Set aside 1% of accounts receivable	

Adjusting Entries.—In order that you may know how to construct the adjusting journal entries, model journal entries will be given. The model journal entries are numbered in the text because they will be referred to when the *ten column working sheet* is explained and illustrated later in the text.

Illustration 343

			(1)				
Jan.	31		Mdse. Purchases	16,241	72		
			Mdse. Inventory			16,241	72
			To transfer the mdse. inventory, January 1, to the Mdse. Purchases account.				

			(2)				
Jan.	31		Mdse. Inventory	17,704	40		
			Mdse. Purchases			17,704	40
			To record the mdse. inventory, January 31, and to credit the Mdse. Purchases account for the value of the merchandise remaining unsold.				
			(3)				
Jan.	31		Sundry Selling Expense	7	00		
			Sundry General Expense	4	66		
			Delivery Expense	12	50		
			Insurance Prepaid			24	16
			Expired Insurance for the month.				
			(4)				
Jan.	31		Accrued Assets				
			Interest Earned	13	15		
			Interest accrued on notes receivable.			13	15
			(5)				
Jan.	31		Interest Paid	32	00		
			Salesmen's Salaries	60	00		
			Shipping Department Wages	10	00		
			Delivery Expenses	10	00		
			Office Salaries	60	00		
			Accrued Liabilities			172	00
			Interest accrued on notes payable and accrued payroll.				
			(6)				
Jan.	31		Deferred Assets	788	64		
			Shipping Supplies			361	75
			Delivery Expense			83	75
			Advertising			106	03
			Office Supplies			162	11
			Fuel and Light			75	00
			To credit the various expense accounts for the value of the unused supplies.				
			(7)				
Jan.	31		Sundry General Expense	25	00		
			Delivery Expense	31	50		
			Reserve for Depreciation on Building			8	75
			Reserve for Depreciation on Office Equipment			16	25
			Reserve for Depreciation on Delivery Equipment			31	50
			Estimated amount of depreciation for one month.				
			(8)				
Jan.	31		Bad Debts	xx	xx		
			Reserve for Bad Debts			xx	xx
			1% of accounts receivable set aside as a reserve for bad debts.				

Illustration 344

Haines and Engle

Statement of Profit and Loss, January 1 to January 31, 19—

(†) (Trading Section)							
Returns from Sales:							
Gross Sales			12,578	65			1.00
Less: Return Sales			200	00			.016
Net Returns from Sales					12,378	65	.984
Deduct Cost of Sales:							
Mdse. Inventory, January 1, 19—			17,118	14			1.36
Mdse. Purchases, 1/1 to 1/31, 19—	11,287	25					.897
Less Return Purchases	150	00	11,137	25			.012
Freight Inward			213	14			.017
Total Cost of Merchandise			28,468	53			2.225
Less Mdse. Inventory, January 31, 19—			19,617	21			1.559
Net Cost of Merchandise Sold (Turnover)					8,851	32	.703*
Gross Profit on Sales					3,527	33	.280*
Deduct Trading (Selling) Expenses:							
Salesmen's Salaries			250	00			.019
Salesmen's Expenses			125	00			.009
Advertising			256	75			.020
Shipping Supplies			85	16			.006
Shipping Department Wages			125	00			.009
Delivery Expenses			116	15			.009
Sundry Selling Expenses			19	10			.001
Total Selling Expenses					977	16	.077*
Net Trading Profit					2,550	17	.202*
(†) (Administrative Section)							
Deduct General Administrative Expenses:							
Office Salaries			850	00			.067
Office Supplies			211	00			.016
Fuel and Light			75	00			.005
Sundry Office Expense			45	11			.003
Sundry General Expense			34	76			.002
Total General Administrative Expenses					1,215	87	.096*
Net Operating Profit					1,334	30	.106*
(†) (Profit and Loss Section)							
Add Other Income:							
Discount on Purchases			189	75			.015
Interest Earned			147	60	337	35	.011
Total Income					1,671	65	.132*
Deduct Other Charges:							
Discount on Sales			111	40			.008

Interest Paid		98 70		.007
Collection and Exchange		18 50		.001
Bad Debts		75 00	303 60	.005
Net Profit for the Month			1,368 05	.108*
Apportioned as follows:				
Andrew Haines, Interest		165 11		.013
Price Engle, Interest		134 72		.010
Andrew Haines, ½ Profit		534 11		.042
Price Engle, ½ Profit		534 11	1,368 05	.042
*Percentages required.				
(†) Omit in your statement.				

Adjusted Trial Balance.—Post the adjusting journal entries and prepare an adjusted trial balance. Have it approved by your instructor.

Profit and Loss Statement.—Following the model form on page 54, prepare the profit and loss statement from the adjusted trial balance and merchandise inventory. Interest on the partners' capital and personal accounts is figured at 6% per annum. Find the interest for the exact number of days on each item. Have your statement approved by your instructor.

Closing Journal Entries.—Before attempting to prepare the necessary journal entries to close the nominal accounts appearing in the profit and loss statement, review *Divisional Profit and Loss* account on page 12. It will be observed that the profit and loss statement has been prepared by grouping together, first, those accounts which affect the *Trading* division, second, those accounts which affect the *Administrative* division, and third, those accounts which affect the *Profit and Loss* division, together with the proper apportionment of the net profit between the partners. The profit and loss statement will aid greatly in the preparation of the closing journal entries.

Since the *Trading* account groups together all the accounts relating directly to the purchase and sale of merchandise, journal entries should be prepared which will, when posted to the ledger, close the accounts affecting the trading division, which have now served their purpose. While simple closing journal entries for each account affecting the trading division could be prepared and posted separately, as shown in Illustration 301, the usual custom in advanced bookkeeping is to prepare compound closing journal entries for the various sections of the profit and loss statement.

An Aid in the Preparation of the Closing Journal Entries. The following illustration has been found most helpful in the preparation of the closing journal entries necessary to record the *Gross Trading Profit* in the Trading account. The merchandise inventories are not used when preparing the closing journal entries in this set, because they were used when the adjusting journal entries were made. Refer to the adjusted trial balance for the amount necessary to close the Mdse. Purchases account. All other amounts will be found in the profit and loss statement. This work may be done first on loose notebook paper.

Beginning with the first item in the profit and loss statement, gross sales, determine whether the Mdse. Sales account should be debited or credited in order to close it. In like manner determine whether a debit or a credit entry is necessary to close the other accounts. If you are undecided refer to the ledger. The following *working form* has been prepared from the model profit and loss statement on page 54. Study the working form carefully and trace the various items from the model profit and loss statement to the working form.

Working Form

Illustration 345

Accounts Debited			Accounts Credited		
Mdse. Sales	12,578	65	**Mdse. Purchases**	8,788	18
Return Purchases	150	00	**Return Sales**	200	00
			Freight Inward	213	14
Trading, Cr.,	12,728	65	**Trading, Dr.,**	9,201	32

It will be observed that the amount necessary to close the Mdse. Purchases account is not given in the profit and loss statement but in the adjusted trial balance. It may be obtained from the profit and loss statement by adding the amount of the mdse. inventory, January 1, to the amount of the purchases for the month, and subtracting the mdse. inventory, January 31.

Proof. In order to test whether the accounts have been properly debited and credited, subtract the debit Trading entry, $9,201.32 from the credit Trading entry, $12,728.65. If it equals the Gross Trading Profit, $3,527.33, in the profit and loss statement, it is correct.

Closing Journal Entries Prepared from the Working Form.—*Step 1.* While the text has omitted the explanation for the closing entries, a suitable explanation should be made when recording them in the journal.

Illustration 346

Jan.	31		**Mdse. Sales**	12,578	65		
			Return Purchases	150	00		
			Trading			12,728	65
Jan.	31		**Trading**	9,201	32		
			Mdse. Purchases			8,788	18
			Return Sales			200	00
			Freight Inward			213	14

Step 2. Prepare a closing journal entry for the next section of the profit and loss statement, the Trading expenses. Prepare a working form as shown in Illustration 345. It will be observed that it requires a credit entry to close each account. The Trading account, therefore, should be debited for $977.16, the sum of the trading expenses, and each individual account should be credited.

Step 3. Prepare a closing journal entry to close the Trading account into the Administration account, as illustrated when the Divisional Profit and Loss account was explained. If the previous closing journal entries were correct, the amount necessary to close the Trading account should be $2,550.17, the Net Trading Profit as shown in the model profit and loss statement on page 54.

Step 4. Prepare the closing journal entry for the next section of the profit and loss statement, the General Administrative Expenses. Prepare the working form as previously illustrated. Debit the Administrative account and credit each individual account.

Step 5. Prepare a closing journal entry to close the Administrative account into the Profit and Loss account. If the previous closing journal entries were correct, the amount necessary to close the Administrative account should be $1,215.87, the Net Operating Profit as shown in the model profit and loss statement. Debit the Administrative account and credit the Profit and Loss account.

Step 6. Prepare a closing journal entry to close the next section, Other Income. Since the accounts represent other income, debit entries will be required to close the accounts. Debit the individual accounts and credit the Profit and Loss account.

Step 7. Prepare a closing journal entry to close the next section, Other Charges. Since the accounts represent other charges, credit entries will be required to close the accounts. Debit the Profit and Loss account for the sum of the charges, and credit each individual account.

Step 8. If your previous journal entries were correct, the balance of the Profit and Loss account should be $1,368.05, the Net Profit for the month, as shown in the model profit and loss statement. If it is correct, prepare a closing journal entry, debiting the Profit and Loss account and crediting the capital accounts of Andrew Haines and Price Engle for the interest on their investments and their share of the profit of the business. This entry completes the work necessary to close the ledger accounts.

If the above closing journal entries have been carefully prepared or traced from the model profit and loss statement on page 54, you should be able to prepare the necessary closing journal entries to close the ledger accounts of Tucker and Brown. It is suggested that you prepare the model working form before attempting to prepare the closing entries.

Closing Journal Entries for January.—Prepare the closing journal entries necessary to close the accounts of Tucker and Brown. Post the entries as suggested above. Rule the accounts that balance.

The object of each closing journal entry should be thoroughly understood before proceeding further with the work. The model working form found on page 56 will be of assistance in preparing the closing journal entries.

Closing the Partners' Personal Accounts.—Prepare a journal entry to close the partners' personal accounts into the partners' capital accounts. This may be done when the books are closed or when a new partner is admitted. Debit the partners' personal accounts and credit the partners' capital accounts.

Entries After Ledger is Closed.—Since the nominal accounts that balance have been ruled, the remaining accounts in the general ledger represent the assets and liabilities, and the proprietary interest of the partners. A part of the assets and liabilities are represented by the Accrued Assets (No. 4 on page 53), the Accrued Liabilities (No. 5 on page 53), and the Deferred Assets (No. 6 on page 53) accounts, which control the separate accounts to which the individual items belong. If the separate accounts are to represent their true assets or liabilities at the beginning of the next business period, journal entries should be prepared crediting the Accrued Assets account and debiting the Interest Earned account; debiting Accrued Liabilities account and crediting the accounts with the amounts of the accruals represented by the Accrued Liabilities account; crediting the Deferred Assets account and debiting the accounts with the amounts of the deferred charges represented by the Deferred Assets account.

Post the *entries after the ledger is closed.* Rule off the journal, and the Accrued Assets, Accrued Liabilities, and Deferred Assets accounts.

Balance Sheet.—Prepare a balance sheet following the form illustrated on page 38, and submit it to your instructor for examination and approval.

Proof Trial Balance.—Prepare a proof trial balance and submit it to your instructor for examination and approval.

Percentage Results Often Required.—While there are many percentages with reference to profits and expenses which are of importance as shown in the model profit and loss statement, some are more important than others. For example, the percentage between sales and the cost of merchandise sold; between sales and the gross profit on sales; between sales and the selling expenses; between sales and the general administrative expenses; between sales and other income; between sales and other charges; and between sales and net profit for the business period.

Find the percentages called for in the following exercises for Tucker and Brown's profit and loss statement, January 1 to January 31, 19—. Keep your results for a subsequent exercise.

1. What is the rate (*a*) of cost of merchandise sold on sales? (*b*) of the gross profit on sales? (*a*) Divide the cost of merchandise sold by the sales; (*b*) divide the gross profit on sales by the sales.
2. What is the rate (*a*) of the total selling expenses on sales? (*b*) of the net trading profit on sales? (*a*) Divide the total selling expenses by the sales; (*b*) divide the net trading profit by the sales.
3. What is the rate (*a*) of the total general administrative expenses on sales? (*b*) of the net operating profit on sales? (*a*) divide the total general administrative expenses by the sales; (*b*) divide the net trading profit by the sales.
4. What is the rate (*a*) of other income on sales? (*b*) of the total income on sales? (*a*) Divide other income by the sales; (*b*) divide the total income by the sales.
5. What is the rate (*a*) of other charges on sales; (*b*) of the net profit for the month on sales? (*a*) divide other charges by the sales; (*b*) divide the net profit for month by the sales.

Turnover.—The term *turnover*, as used by bookkeepers to-day, may be defined as the *first cost of merchandise sold*. By referring to the model profit and loss statement on page 54, under the cost of sales group, it is represented by the cost of merchandise sold.

Turnover of Stock.—While the kinds of statistics represented by means of percentages, such as those represented in the percentage exercises given above, are of value in the management of a business, none are more important to successful management than a knowledge of the number of times the stock of merchandise has been sold (turned over) during the year. It serves as a useful percentage basis in determining relative selling efficiency. While there are a number of methods used in determining the number of times the merchant has turned over his stock, the following method is in general use.

Divide the cost of the merchandise sold by the average cost value of the merchandise carried in stock. For example, if the average cost value of the merchandise carried in stock is $10,000.00 and the total cost value of merchandise sold is $40,000.00, the number of times the stock has been turned over is four.

Referring to Tucker and Brown's profit and loss statement, January 1 to January 31, the average cost of merchandise carried in stock is $16,973.06, found by averaging the merchandise inventories of January 1 and January 31. The cost of merchandise sold is $8,922.15 for the month. Using the cost of merchandise sold for one month as a basis, $107,065.80 would represent the cost of merchandise sold for twelve months.

Exercise 203

1. Determine the number of times the stock of merchandise has been turned over for one month. (Tucker and Brown statement.)
2. Determine the number of times the stock of merchandise has been turned over on the basis of twelve months.
3. Determine the number of times the stock of merchandise has been turned over in the following:

Merchandise Inventory, January 1	$4,560.00
Merchandise Inventory, December 31	4,780.00
Cost of merchandise sold	23,350.00

The Working Sheet.—As an aid in the preparation of the adjusting entries, the adjusted trial balance, and profit and loss statement and the balance sheet which you have just pre-

pared, bookkeepers frequently employ the *ten-column working sheet.* It is designed to show at a glance the adjustments and statements showing the *result* and the *condition* of the business. It will be observed that it affords a convenient opportunity to show the relationship between the trial balance, the adjusting entries, and the various statements.

The first two money columns of the *working sheet* contain the trial balance figures. The next two money columns contain the adjustments necessary to make the accounts reflect the true financial condition of the business. The next two money columns contain the adjusted trial balance figures from which the statements are prepared. The next two money columns contain the items which will appear in the profit and loss statement, and the last two money columns contain the items which will appear in the balance sheet.

The model adjusting journal entries on page 52 were prepared from the model *ten-column working sheet* on page 60. Trace each model adjusting journal entry to the two columns headed *Adjustments* in the *working sheet.* It will be observed that the figures appearing in the two columns headed *Adjustments* are with one exception the same as those appearing in the model adjusting journal entries.

Next, observe how the amounts appearing in the two columns headed *Adjusted Trial Balance* are obtained. If no adjustments were made, the amount appearing in the trial balance is extended into the proper column of the adjusted trial balance. If adjustments were made, the amount appearing in either of the two columns headed *Adjustments* is added or subtracted, according to the nature of the column in which the adjustment is recorded. The adjusted trial balance will, if all adjustments have been properly made, contain the accounts which reflect the true financial condition of the business.

Next, observe how the amounts appearing in the two columns headed *Profit and Loss* and in the two columns headed *Assets and Liabilities* are obtained. Since the adjusted trial balance contains the accounts which reflect the true financial condition of the business, the amounts appearing in the adjusted trial balance are extended into either the two columns headed *Profit and Loss* or the two columns headed *Assets and Liabilities.* If an account shows by its result either a profit or a loss or an amount necessary to determine the profit or the loss on merchandise, it is extended into one of the columns headed *Profit and Loss.* If an account shows by its result either an asset or a liability, it is extended into one of the columns headed *Assets and Liabilities.* If the work is properly done, the *working sheet* will show clearly each step necessary in the preparation of the statements.

The *working sheet* hereafter will be prepared before the separate profit and loss statement and the balance sheet, and will be used as an aid in their preparation.

Explanation of the Adjusting Entries.—The adjusting journal entries on page 52 were prepared from the model working sheet. The amounts in one or two cases vary. Trace each journal entry from the model journal entries to the two columns headed *Adjustments* in the working sheet. Observe that the debit amount, $54.00, for Delivery Expenses is made up of $12.50, journal entry numbered 3; $10.00, journal entry numbered 5; and $31.50, journal entry numbered 7. Also, observe that the debit amount, $29.66, for Sundry General Expense is made up of $4.66, journal entry numbered 3; $25.00, journal entry numbered 7. These are entered in the working sheet as one sum for convenience. They may be written in in smaller figures separately.

Instructions.—If instructed by your teacher, prepare a *working sheet* from Tucker and Brown's trial balance of January 31, 19—, using the same adjustments which were used when preparing the adjusted trial balance. Do not attempt to verify each item of your adjusted

Tucker and Brown

Illustration 347

	TRIAL BALANCE DR.	TRIAL BALANCE CR.	ADJUSTMENTS DR.	ADJUSTMENTS CR.
Cash	891 62			
Petty Cash	3 00			
Trade Acceptance Receivable	3,411 50			
Notes Receivable	3,307 16			
Accounts Receivable	5,411 54			
Reserve for Bad Debts		54 71		54 20
Mdse. Inventory	16,241 72		17,704 40	16,241 72
Insurance Prepaid	290 00			24 16
Land, 1008 State Street	5,500 00			
Building, 1008 State Street	6,500 00			
Reserve for Dep. of Bldg.		130 00		8 75
Office Equipment	1,750 00			
Reserve for Dep. Off. Equip.		35 00		16 25
Delivery Equipment	2,100 00			
Reserve for Dep. Del. Equip.		144 00		31 50
Accrued Assets			13 15	
Deferred Assets			788 64	
Trade Acceptance Payable		2,665 00		
Notes Payable		5,972 24		
Accounts Payable		4,312 00		
Accrued Liabilities				172 00
Notes Receivable Discounted		2,100 60		
Trade Accept. Rec. Discounted		256 25		
James L. Tucker, Capital		20,000 00		
John R. Brown, Capital		10,000 00		
James L. Tucker, Personal		90 88		
John R. Brown, Personal		90 88		
Mdse. Purchases	10,288 25		16,241 72	17,704 40
Return Purchases		38 25		
Freight Inward	135 83			
Mdse. Sales		12,275 90		
Return Sales	70 25			
Salesmen's Salaries	200 00		60 00	
Salesmen's Expense	150 00			
Advertising	187 23			106 03
Shipping Supplies	567 11			361 75
Shipping Department Wages	26 67		10 00	
Delivery Expense	189 92		54 00	83 75
Sundry Selling Expense	5 00		7 00	
Office Salaries	637 86		60 00	
Office Supplies	293 33			162 11
Fuel and Light	100 00			75 00
Sundry Office Expense	33 00			
Sundry General Expense			29 66	
Discount on Purchases		224 58		
Interest Earned		24 40		13 15
Discount on Sales	113 30			
Interest Paid		2 50	32 00	
Collection and Exchange	12 90			
Bad Debts			54 20	
	58,417 19	58,417 19	35,054 77	35,054 77
Profit for January				

Working Sheet, January 31, 19—

Illustration 347

ADJ. TRIAL BALANCE				PROFIT AND LOSS				ASSETS AND LIABILITIES			
DR.		CR.		DR.		CR		DR		CR.	
891	62							891	62		
3	00							3	00		
3,411	50							3,411	50		
3,307	16							3,307	16		
5,411	54							5,411	54		
		108	91							108	91
17,704	40							17,704	40		
265	84							265	84		
5,500	00							5,500	00		
6,500	00							6,500	00		
		138	75							138	75
1,750	00							1,750	00		
		51	25							51	25
2,100	00							2,100	00		
		175	50							175	50
13	15							13	15		
788	64							788	64		
		2,665	00							2,665	00
		5,972	24							5,972	24
		4,312	00							4,312	00
		172	00							172	00
		2,100	60							2,100	60
		256	25							256	25
		20,000	00							20,000	00
		10,000	00							10,000	00
		90	88							90	88
		90	88							90	88
8,825	57			8,825	57						
		38	25			38	25				
135	83			135	83						
		12,275	90			12,275	90				
70	25			70	25						
260	00			260	00						
150	00			150	00						
81	20			81	20						
205	36			205	36						
36	67			36	67						
160	17			160	17						
12	00			12	00						
697	86			697	86						
131	22			131	22						
25	00			25	00						
33	00			33	00						
29	66			29	66						
		224	58			224	58				
		37	55			37	55				
113	30			113	30						
29	50			29	50						
12	90			12	90						
54	20			54	20						
58,710	54	58,710	54	11,063	69	12,576	28	47,646	85	46,134	26
				1,512	59					1,512	59
				12,576	28	12,576	28	47,646	85	47,646	85

Selling Price List for

	1	2	3	4	5	6	7	8	9	10
Brass Bedstead	17.50	17.25	17.35	17.15	17.05	17.40	17.75	17.10	17.20	17.95
Felt Mattress	9.25	9.50	9.05	9.80	9.10	9.70	9.55	9.75	9.15	9.35
Hair Mattress	10.75	10.50	10.95	10.20	10.90	10.30	10.45	10.25	10.85	10.65
Kitchen Cabinet	11.25	11.50	11.75	11.15	11.05	11.30	11.10	11.95	11.65	11.55
Mahogany Chiffonier	28.50	28.75	28.65	28.85	28.95	28.60	28.25	28.90	28.80	28.05
Mahogany Davenport	28.50	28.75	28.60	28.10	28.25	28.90	28.55	28.15	28.80	28.95
Mahogany Dresser	32.25	32.75	32.05	32.95	32.10	32.80	32.15	32.70	32.55	32.20
Mahogany Dressing Table	19.50	19.05	19.25	19.45	19.95	19.30	19.50	19.10	19.35	19.70
Mahogany Library Table	21.75	21.50	21.65	22.15	22.00	21.35	21.70	22.10	21.45	21.30
Mahogany Parlor Suite	125.50	125.75	125.40	125.05	125.95	125.20	125.85	125.10	125.70	125.55
Mahogany Rocker	10.50	10.05	10.45	10.85	10.10	10.55	10.40	10.90	10.15	10.60
Oak Chamber Suite	42.75	42.50	42.85	43.20	42.30	43.05	42.40	43.15	42.55	42.70
Oak Chiffonier	19.25	19.75	19.35	19.15	19.05	19.40	19.25	19.10	19.20	19.95
Oak Davenport	24.75	24.25	24.65	24.85	24.95	24.60	24.75	24.90	24.80	24.05
Oak Dining Chair	4.25	4.10	4.45	4.75	4.85	4.05	4.55	4.80	4.15	4.35
Oak Dining Table	23.50	23.95	23.30	23.70	23.05	23.65	23.90	23.10	23.60	23.35
Oak Dresser	28.50	28.75	28.25	28.80	28.20	28.15	28.85	28.10	28.95	28.05
Oak Dressing Table	16.25	16.80	16.55	16.30	16.95	16.50	16.20	16.90	16.45	16.15
Oak Library Table	15.25	15.50	15.35	15.95	15.05	15.30	15.80	15.45	15.70	15.10
Oak Parlor Suite	112.25	112.00	112.15	111.55	112.45	112.20	111.70	112.05	111.80	112.40
Oak Sideboard	28.75	28.10	28.95	28.05	28.80	28.15	28.85	28.20	28.80	28.30

trial balance with the adjusted trial balance in the model ten-column working sheet, as several of the items vary as to different price-lists. Test the two columns headed *Profit and Loss* with *your* profit and loss statement, and the two columns headed *Assets and Liabilities* with *your* balance sheet. The results should be the same. Submit your working sheet to your instructor for examination and approval.

TUCKER & BROWN COMPANY BUSINESS

February

James L. Tucker and John R. Brown entered into a partnership agreement with William A. Boyd, January 31, 19—, referred to on page 51, and William A. Boyd was admitted a member of the firm. Since the nature of a partnership agreement was fully explained and illustrated in the November and December work, the form is omitted here. For the *goodwill* of the business James L. Tucker and John R. Brown were allowed $5,000.00, which is to be divided equally between them. Review Goodwill on page 28. William A. Boyd will invest $12,000.00 in cash and is to receive one-third of the net profits of the business.

Salary Allowances.—The new partnership agreement allows James L. Tucker a monthly salary of $250.00, John R. Brown, $200.00, and William A. Boyd, $225.00.

The firm name is to be Tucker & Brown Company.

Books of Accounts.—The same books as were used in January will be continued during

January and February

11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
17.70	17.30	17.45	17.85	17.52	17.12	17.36	17.61	17.11	17.33	17.76	17.17	17.71	17.44	17.49
9.20	9.85	9.30	9.65	9.22	9.17	9.51	9.36	9.92	9.18	9.71	9.39	9.23	9.32	9.51
10.80	10.15	10.70	10.35	10.78	10.83	10.49	10.64	10.08	10.82	10.29	10.61	10.77	10.68	10.49
11.40	11.90	11.50	11.30	11.65	11.67	11.27	11.36	11.67	11.41	11.24	11.19	11.41	11.38	11.28
28.30	28.70	28.55	28.15	28.48	28.88	28.64	28.39	28.89	28.67	28.24	28.83	28.29	28.56	28.51
28.70	28.45	28.65	28.30	28.28	28.61	28.12	28.51	28.39	28.78	28.87	28.23	28.52	28.19	28.67
32.85	32.35	32.33	32.23	32.01	32.92	32.17	32.62	32.41	32.17	32.08	32.52	32.78	32.11	32.91
19.55	19.15	19.25	19.40	19.85	19.60	19.20	19.90	19.19	19.65	19.71	19.27	19.75	19.38	19.80
21.55	21.80	21.60	21.95	21.97	21.64	22.13	21.74	21.86	21.47	21.38	22.02	21.73	22.06	21.58
125.15	125.90	125.65	125.35	125.18	125.53	125.77	125.11	125.56	125.88	125.32	125.99	125.17	125.54	125.12
10.15	10.20	10.65	10.85	10.25	10.15	10.90	10.30	10.75	10.17	10.74	10.35	10.80	10.18	10.40
43.10	42.35	42.60	42.90	43.07	42.72	42.48	43.14	42.69	42.37	42.93	42.26	43.08	42.71	43.13
19.70	19.30	19.45	19.85	19.48	19.13	19.61	19.95	19.14	19.57	19.78	19.11	19.49	19.77	19.33
24.30	24.70	24.55	24.15	24.52	24.87	24.39	24.05	24.86	24.43	24.22	24.89	24.51	24.23	24.67
4.60	4.20	4.90	4.65	4.30	4.17	4.35	4.70	4.40	4.31	4.52	4.68	4.13	4.44	4.27
23.85	23.15	23.55	23.45	23.80	23.20	23.75	23.25	23.11	23.76	23.41	23.23	23.79	23.48	23.36
28.90	28.45	28.40	28.15	28.28	28.13	28.77	28.63	28.47	28.81	28.36	28.66	28.07	28.19	28.49
16.75	16.40	16.05	16.65	16.35	16.10	16.60	16.16	16.32	16.48	16.19	16.68	16.52	16.46	16.33
15.85	15.40	15.55	15.65	15.32	15.71	15.13	15.96	15.08	15.97	15.39	15.23	15.42	15.78	15.18
111.65	112.10	111.95	111.85	112.18	111.79	112.42	111.54	112.42	111.53	112.11	112.27	112.08	111.72	112.32
28.85	28.25	28.70	28.45	28.65	28.40	28.68	28.77	28.69	28.71	28.58	28.83	28.76	28.64	28.73

February. New accounts and transactions will be introduced during February. These will be fully explained and illustrated when they occur.

Business Practice.—The business papers which were received and issued during January will be discontinued during February. The text book will supply sufficient information regarding each transaction to enable it to be recorded. Omission of the business papers will allow you to spend more time on the bookkeeping principles.

Transactions

FEBRUARY 2

Prepare a journal entry with the proper explanation, debiting the Goodwill account and crediting the capital accounts of James L. Tucker and John R. Brown as per the partnership agreement.

Before beginning the February work, enter the cash balance below the double ruling in the Cash Dr., and General Ledger columns. Draw single red lines beneath the amounts in order that they may not be added during the current month.

Prepare a cashbook entry crediting William A. Boyd's capital account for the amount of his investment, entering the amount in both the Cash Dr., and General Ledger columns.

Draw a check in favor of Petty Cash for \$22.00. Review transaction No. 7.

Notice from the Commonwealth National Bank that it has collected Webster and Sullivan's 90-day interest-bearing note of Novemner 3 for \$760.80. Collection charges, 1/10%.

Make the following payments:

The Hub Manufacturing Company, invoice of January 3, less 2%.

The Armstrong Furniture Company, on account, $500.00.

The posting during the month of February should be done from day to day. In practice it is usually kept up to date. If this method is followed the work is more evenly distributed during the month.

FEBRUARY 3

Receive invoice of the Keystone Furniture Company for $756.32; terms, 2/15, N/60.

Fill order received from Allen & Son for goods amounting to $1,223.37; terms, on account.

Since the duplicate charge bills are omitted during February, post from the sales journal using the Sales No. column for the ledger folio column.

Pay bill of Jones and Baker for office supplies, $37.27.

FEBRUARY 4

Fill order received from H. B. Frazer and Company, for goods amounting to $945.64; terms, 20-day trade acceptance.

When the terms of an invoice or bill calls for a trade acceptance or note, make the proper entry for the trade acceptance or note at the time the invoice or bill is recorded.

Pay petty cash memorandum. Stamps, $5.00; telegram, $0.75; cleaning office windows, $1.50.

Cash sale to H. S. Grove, $126.11.

FEBRUARY 5

Check from the Patten Furniture Company in payment of their note of January 6, due to-day with interest.

Check from W. A. Adams Company, Inc., for $200.00 in part payment of their bill of January 6. They are entitled to 1% discount. Allow them the proper credit.

We are notified by the Commonwealth National Bank that Kruger and Blind Company's sight draft for $504.50 is at the bank for collection. This draft was drawn with our permission. Pay it by check.

Check from Wright and Wright for $250.00 in part payment of their bill of January 6. They are entitled to a 2% discount. Allow them the proper credit.

FEBRUARY 6

Received a 20-day interest-bearing note for $500.00 and their check for the balance from D. B. Martin Company in full payment of their bill of January 22.

We are notified by the Commonwealth National Bank that our trade acceptance of January 7 in favor of Joseph L. Shoemaker, Inc., is at the bank for collection. Pay it by check.

Invoice from I. P. Thomas and Son Company for $3,240.60; terms, 2%, 20-day trade acceptance.

Enter the full amount of the invoice in the purchases journal. Determine the amount of the 20-day trade acceptance by deducting the 2% discount. Instead of accepting the trade acceptance, prepay it by writing your check for the amount of the trade acceptance less the 20-day discount (interest). Enter the merchandise discount in the Discount on Purchases column; the discount (interest) on the trade acceptance in the Interest Earned column; the amount paid in the Cash Cr. column; and the amount of the invoice in the Accounts Payable column.

Cash sale to George Bowden, $96.24.

FEBRUARY 7

Pay, by check, freight bill for merchandise purchased, $35.41.

Received a 60-day interest-bearing note for $600.00 dated February 6, and a check for the balance from the Patten Furniture Company in payment of their bill of January 27, less discount. Enter the total discount on purchases in the cashbook.

Fill order received from the Quincy Furniture Company for goods amounting to $1,147.98; terms, sight draft in 30 days.

Issue a check for the amount of the pay roll, $280.00.

Office Salaries, $120.00; Salesmen's Salaries, $120.00; Shipping Department Wages, $20.00; Driver's wages (Delivery Expense), $20.00.

FEBRUARY 9

Invoice from the Union Furniture Company for $1,375.40; terms, net.

Fill order from Angerman and Corson for goods amounting to $1,740.20; terms, 30-day trade acceptance.

Discount at the bank Angerman and Corson's 30-day trade acceptance, received to-day, and receive credit for the proceeds.

Pay petty cash memorandum. Cleaning store windows, $4.25; one gallon oil for delivery truck, $0.75.

FEBRUARY 10

Two Mahogany Rockers at $8.50 each and one Mahogany Library Table at $16.00, received yesterday from the Union Furniture Company, were returned for credit, and a credit memorandum is received for the goods returned.

Letter and New York draft from Murphy and Read, Gary.

Murphy and Read effected a compromise with their creditors by agreeing to pay 50 cents on the dollar, which Tucker and Brown accepted in their letter of January 28. Make the proper cashbook and journal entries, as previously instructed. Review Reserve for Bad Debts on page 23.

Check from Allen and Son for $269.50 to apply on account.

FEBRUARY 11

Fill order received from D. B. Martin Company for goods amounting to $1,234.24; terms, on account.

Two Brass Beds at $13.75 each and two Hair Mattresses at $10.75 each, shipped to Allen and Son on February 3, were returned to us for credit. A credit memorandum was mailed to-day.

Pay, by check, the City Garage's bill of February 10 for repairs to truck, $18.50.

Make the following payments:

- James L. Tucker, personal use, $175.00.
- John R. Brown, personal use, $175.00.
- William A. Boyd, personal use, $175.00.
- Simmons Hardware Company's bill for shipping supplies, $37.40.

FEBRUARY 12

Invoice from Joseph L. Shoemaker, Inc., for $1,972.11; terms, 2%, 30-day trade acceptance.

Instead of accepting the trade acceptance, prepay it, following the instructions previously given.

Fill the order received from Frick, McClay and Company for goods amounting to $1,671.11; terms, on account.

Cash sale to Walter Roberts, $71.40.

Pay, by check, bill of the Atlantic Refining Company for gasoline for delivery truck, $28.00.

FEBRUARY 13

We are notfied by the Commonwealth National Bank that the Utility Furniture Company's trade acceptance of January 14 is at the bank for collection. Pay it by check.

Receive invoice from the Hub Manufacturing Company for $940.80; terms, 30-day trade acceptance.

Fill the order received from James Cummings and Bro. for goods amounting to $740.60; terms, on account.

FEBRUARY 14

Pay, by check, freight bill for merchandise purchased, $56.17.

We are notified by the Commonwealth National Bank that our 60-day interest-bearing note in favor of Gross and Company is at the bank for collection. Pay, by check, both the note and the interest.

Notice from the Commonwealth National Bank that it has collected for us H. B. Frazer and Company's trade acceptance of January 15. Collection charges, 1/10%.

Pay, by check, the balance of Shaw-Walker Company's invoice of January 15, less discount.

FEBRUARY 16

Send T. B. Wallace, your traveling salesman, a check for $100.00 for traveling expenses.

Invoice from Kruger and Blind Company for $565.27; terms, 30-day note with interest.

FEBRUARY 17

Pay, by check, the Keystone Furniture Company's invoice of February 3, less discount.

Fill order received from William Simpson and Son for goods amounting to $1,562.18; terms, 2/10, N/60.

FEBRUARY 18

Notice from the Commonwealth National Bank that it has collected Angerman and Corson's trade acceptance of January 19. Collection charges, 1/10%.

Notice from the Commonwealth National Bank that our note in favor of the Armstrong Furniture Company is at the bank for collection. Pay it by check.

Notice from the Commonwealth National Bank that our trade acceptance of January 29 in favor of the Utility Furniture Company is at the bank for collection. Pay it by check.

FEBRUARY 19

Two Mahogany Davenports at $28.50 each and two Mahogany Library Tables at $19.50 each, shipped to Frick, McClay and Company on February 12, were returned to us for credit. A credit memorandum was mailed to-day.

The Commonwealth National Bank notifies us that our sight draft drawn on the Quincy Furniture Company (bill of January 19) has been collected. Collection charges, 1/10%.

Notice from the Commonwealth National Bank that it has collected Angerman and Corson's trade acceptance of January 30. Collection charges, 1/10%.

FEBRUARY 20

The two Mahogany Davenports at $23.50 (cost) each and the two Mahogany Library Tables at $15.25 (cost) each, received yesterday, were returned by us to the Union Furniture Company for credit.

Check from Allen and Son, on account, $500.00.

FEBRUARY 21

Pay, by check, freight bill for merchandise purchased, $19.48.

Pay petty cash memorandum. Cleaning store windows, $4.50; stamps, $5.00; 5 pounds of grease for delivery truck, $1.00.

Check from William Simpson and Son in payment of bill of January 22, less discount.

Issue check for the amount of the pay roll, $280.00.

Office Salaries, $120.00; Salesmen's Salaries, $120.00; Shipping Department Wages, $20.00; Driver's Wages (Delivery Expense), $20.00.

FEBRUARY 23

Invoice from Shaw-Walker Company for $1,211.26; terms, 1/30, N/60.

Fill order received from the Patten Furniture Company for goods amounting to $840.80; terms, 30-day trade acceptance.

FEBRUARY 24

Notice from the Commonwealth National Bank that it has collected H. B. Frazer and Company's trade acceptance of February 4. Collection charges, 1/10%.

Send the Armstrong Furniture Company our 30-day interest-bearing note for $500.00 to apply on account.

Invoice from the Utility Furniture Company for $742.11; terms, 60-day trade acceptance.

FEBRUARY 25

Check from Frick, McClay and Company for $600.00 to apply on account.

Bill from Smedley Bros. for $27.50 for shipping supplies.

FEBRUARY 26

Notice from the Commonwealth National Bank that it has collected D. B. Martin Company's note with interest due to-day. Collection charges, 1/10%.

Cash sale to John Feaster, $121.27.

Sixty-day interest-bearing note received from D. B. Martin Company for $750.00 to apply on account.

FEBRUARY 27

Check from William Simpson and Son for $1,000.00 to apply on bill of February 17. Since they are entitled to a 2% discount, allow them the proper credit.

Invoice from the Keystone Furniture Company for $1,472.11; terms, 2/15, N/60.

Fill order received from Collins and Phillips for goods amounting to $3,167.40; terms, 2/10, N/60.

FEBRUARY 28

Pay, by check, freight bill for merchandise purchased, $32.71.

Notice from the Commonwealth National Bank that our 30-day interest-bearing note in

favor of the Union Furniture Company is at the bank for collection. Pay the note and interest by check.

Pay, by check, telephone bill, $20.20.

Credit James L. Tucker, John R. Brown, and William A. Boyd for their February salaries in the journal as per the partnership agreement.

By referring to the trade acceptance receivable and notes receivable books, determine what trade acceptances receivable and notes receivable, which were discounted, have been paid. Prepare journal entries debiting Trade Acceptance Receivable Discounted and crediting Trade Acceptance Receivable accounts, and debiting Notes Receivable Discounted and crediting Notes Receivable accounts respectively.

Closing the Books of Original Entry.—Foot and rule the books of original entry, and post the total of each book or special column, as in the work for January.

Trial Balance.—Pencil foot the accounts in the general ledger and prepare a trial balance. Have it approved before proceeding further.

Abstracts or Exhibits.—Prepare abstracts or exhibits of the sales ledger, the purchases ledger, the notes receivable book, the notes payable book, the trade acceptance receivable book, and the trade acceptance payable book, as in the work for January.

Dissolution of Partnership.—An agreement has been entered into by and between the partners, whereby John R. Brown is to withdraw his capital from the business on March 1. In case of dissolution it is necessary to ascertain the amount of the profits or losses which have accrued since the close of the last business period, and to apportion the profits or losses and the interest on partners' investments, in order to determine the amount of the proprietorship belonging to each partner as the result of the dissolution.

Closing the Books.—At the time when a legal change takes place in a business it is customary to close the books. Inventories, therefore, have been prepared, not only for the value of the merchandise on hand, but for other property which has been charged to the various expense accounts during the current business period, in order to determine the true profit or loss.

Inventories and Adjusting Entries, February 28, 19—

Merchandise Inventory, February 28, 19—	$18,611.40
Insurance Expired:	
On stock of merchandise (one month)	7.00
On building (one month)	4.66
On delivery equipment (one month)	12.50
Accrued Assets:	
Interest accrued on notes receivable	2.45
Accrued Liabilities:	
Accrued payroll:	
Salesmen's salaries	60.00
Office salaries	60.00
Shipping department wages	10.00
Delivery department wages	10.00
Deferred Assets:	
Shipping supplies	214.30
Delivery department supplies	48.70
Advertising matter on hand	57.46
Office supplies	41.57
Fuel on hand	45.00

Depreciation:

On building (one month)	8.75
On office equipment (one month)	16.25
On delivery equipment (one month)	31.50

Reserve for Bad Debts:
Set aside 1% of accounts receivable.

Adjustments and Statements.—Prepare the following work, as in the January set. If instructed by your teacher, prepare first the ten-column working sheet.

1. Prepare and post adjusting entries.
2. Prepare adjusted trial balance.
3. Prepare the profit and loss statement.
4. Prepare and post closing entries (use working form).
5. Prepare balance sheet.
6. Prepare entries after the ledger is closed, post, and rule ledger accounts.
7. Prepare proof trial balance.
8. Find the percentages called for on page 58.
9. Close the partners' personal accounts into their capital accounts; balance and rule the capital accounts.

Exercise 202

Rogers & Williams' Trial Balance, March 31, 19—

2	Cash	5,000	00		
4	Petty Cash	10	00		
7	Trade Acceptance Receivable	2,500	00		
11	Notes Receivable	1,200	00		
14	Accounts Receivable	10,000	00		
18	Reserve for Bad Debts			100	00
20	Merchandise Inventory (March 1)	18,000	00		
21	Land, 174 Euclid Avenue	8,000	00		
22	Building, 174 Euclid Avenue	10,000	00		
23	Reserve for Depreciation of Building			500	00
24	Office Equipment	2,000	00		
25	Reserve for Depreciation of Office Equipment			200	00
26	Delivery Equipment	2,500	00		
27	Reserve for Depreciation of Delivery Equipment			250	00
28	Goodwill	2,000	00		
29	Trade Acceptance Payable			4,000	00
31	Notes Payable			6,000	00
35	Accounts Payable			7,000	00
38	Trade Acceptance Receivable Discounted			2,000	00
40	A. H. Rogers, Capital			20,000	00
41	John Williams, Capital			18,000	00
42	A. H. Rogers, Personal	100	00		
43	John Williams, Personal	100	00		
48	Interest Earned			100	00
51	Merchandise Purchases	14,200	00		

55	**Returned Purchases**			250	00
58	**Merchandise Sales**			20,000	00
61	**Returned Sales**	300	00		
63	**Freight Inward**	200	00		
66	**Shipping Supplies**	400	00		
70	**Shipping Department Wages**	100	00		
73	**Salesmen's Salaries**	200	00		
77	**Salesmen's Expense**	100	00		
79	**Delivery Expense**	200	00		
82	**Advertising**	100	00		
84	**Sundry Selling Expense**	10	00		
87	**Office Salaries**	600	00		
89	**Sundry Office Expense**	20	00		
90	**Office Supplies**	200	00		
92	**Interest Paid**	50	00		
94	**Insurance Prepaid**	300	00		
96	**Collection and Exchange**	10	00		
97	**Discount on Sales**	100	00		
98	**Discount on Purchases**			300	00
99	**Fuel and Light**	200	00		
		78,700	00	78,700	00

Inventories and Adjusting Entries, March 31, 19—:

Merchandise Inventory, March 31	$15,000.00
Insurance Expired:	
On stock of merchandise (one month)	12.00
On building (one month)	7.00
On delivery equipment (one month)	11.00
Accrued Assets:	
Interest accrued on notes receivable	15.00
Accrued Liabilities:	
Interest accrued on notes payable	30.00
Accrued payroll:	
Salesmen's salaries	50.00
Shipping department wages	20.00
Delivery department wages	10.00
Office salaries	80.00
Deferred Assets:	
Shipping supplies	300.00
Delivery department supplies	100.00
Advertising matter on hand	50.00
Office supplies	100.00
Fuel on hand	150.00
Depreciation:	
On building (one month)	10.00
On office equipment (one month)	5.00
On delivery equipment (one month)	18.00
Reserve for Bad Debts:	
Set aside 1% of accounts receivable	

Directions: Prepare the ten-column working sheet if instructed by your teacher. Profits divided equally between the partners. Prepare the following:

1. Adjusting entries.
2. Adjusted trial balance.
3. Profit and loss statement.
4. Closing journal entries.
5. Balance sheet.
6. Closing entries after the ledger is closed.
7. Proof trial balance.
8. Find the percentages called for on page 58.

Questions: 1. Explain and illustrate the meaning of real accounts and nominal accounts. 2. Explain and illustrate the meaning of current assets, fixed assets, accrued assets, deferred assets, and intangible assets. 3. Explain and illustrate the meaning of current liabilities, fixed liabilities, accrued liabilities, deferred liabilities, valuation accounts, and proprietary interest. 4. Explain and illustrate the meaning of operating income accounts and non-operating income accounts. 5. Explain and illustrate the meaning of operating expenses and non-operating expenses. 6. Explain and illustrate the meaning of revenue accounts. 7. Explain and illustrate the meaning of controlling accounts. 8. When a controlling account is kept with accounts receivable, explain the method of recording and posting (*a*) sales, (*b*) returned sales, (*c*) notes receivable, (*d*) trade acceptance receivable. 9. When a controlling account is kept with accounts payable, explain the method of recording and posting (*a*) purchases, (*b*) returned purchases, (*c*) notes payable, (*d*) trade acceptance payable. 10. On the trial balance of Andrew Haines & Son accounts receivable are stated at $12,345.67. Explain how you would test the accuracy of the amount. 11. Explain the method of showing on the balance sheet reserve for depreciation on furniture and fixtures. 12. Explain and illustrate the meaning of the bad debts account. 13. Explain the method of showing reserve for bad debts on the balance sheet. 14. Explain and illustrate the meaning of contingent liabilities. 15. Explain the method of showing on the balance sheet notes receivable discounted. 16. Explain the meaning of goodwill. 17. Explain and illustrate the meaning and purpose of columnar books. 18. Explain the method of opening and operating a petty cash fund. 19. Describe the subsidiary ledgers used in this set. 20. When a legal change takes place in a partnership what must be done? 21. Explain the use of the trade acceptance. 22. How are the assets of a business classified in the balance sheet? the liabilities? 23. Explain the purpose and use of abstracts or schedules taken from the subsidiary ledgers. 24. What is the purpose of the adjusting entries? 25. What is the purpose of the adjusted trial balance? 26. What items are necessary to ascertain the cost of goods sold? 27. What is the purpose of the closing entries? 28. Explain the purpose of the proof trial balance. 29. Explain the meaning of turnover. 30. Explain and illustrate one method of calculating turnover. 31. Explain the construction and use of the working sheet. 32. After the closing of the ledger is completed at the end of a business period, what open accounts are left in the ledger?

PART II

COMMISSION BUSINESS

Consignments.—In certain lines of business, manufacturers and producers of merchandise frequently ship goods to another to be sold by him for the account of the shipper. When goods are delivered by one person to a second person for the purpose of sale by the second person for the account of the shipper, the transaction is known as a *consignment*. The person who ships or delivers the goods is known as the *consignor*. The person who receives the goods is known as the *consignee*. Consignments may, therefore, be divided into two parts, namely, *consignments received* and *consignments shipped*. Consignments received are usually known as *consignments-in*, and consignments shipped as *consignments-out* or *shipments*.

Commission.—After the consignee sells the goods, he deducts a certain percentage, previously agreed upon, on the total net sales as compensation for his services. This compensation is known as *commission*.

Commission Merchant.—The person who sells merchandise for another on commission is usually known as a *commission merchant* or *factor*.

Net Proceeds.—The consignee will deduct all additional charges besides commission, which he has incurred in selling the goods. The difference between the total net sales and total charges is known as the *net proceeds*.

Agent.—The consignee acts as the representative or agent of the consignor. They are governed, in their dealings, by the general law of agency. If the consignee has received specific instructions from the consignor, they must be carried out. If no instructions have been received, the consignee is governed by the customs of the trade. After the goods have been sold, the consignee becomes personally liable to the consignor for the net proceeds of the goods. The net proceeds, therefore, should be credited to the consignor's account or the money remitted immediately to the consignor.

The consignee and the consignor are governed by the general laws of bailment as long as the goods are in the possession of the consignee.

The consignee is not held responsible for the loss of goods as long as he exercises ordinary diligence in caring for them. He should take the same care of the consignor's goods as he does of his own. The goods from each consignor should be definitely marked or stenciled and kept separate from the stock of merchandise owned by the consignee. If this is not done and a loss occurs, the consignee is held liable for the value of the goods.

Invoice of Shipment.—The consignor usually sends to the consignee a list or schedule of the goods which he ships to the consignee. This list or schedule is known as an *invoice of shipment*. The invoice of shipment is similar in form to an invoice and contains an itemized list of the goods shipped or delivered. The consignor may or may not insert the cost, and the market or selling price of the goods. Unless specific instructions are given, the goods are usually sold at the current market price. In the case of non-perishable goods, the consignor may indicate on the invoice of shipment a price below which the goods are not to be sold.

The following illustrates the form of an invoice of shipment:

Invoice of Shipment

Illustration 348

INVOICE OF SHIPMENT

Toms River, N. J., May 1, **19**__

Invoice of Potatoes and Peaches

Consigned to T. C. Mann

345 Third Street, Philadelphia, Pa.

Shipped via B & O **To be sold for the account and risk of** E. B. Race

		200 bu. Potatoes				
		200 baskets Peaches				

Shipments or Consignments-out.—When goods are shipped on consignment, the consignor or shipper may enter the goods shipped in separate accounts, as, for example, *Shipment, No. 1, T. C. Mann; Consignment-out, No. 1, T. C. Mann;* or he may enter the goods in a general account, as, for example, *Shipments* or *Consignments-out.*

When separate accounts are kept for each shipment, the consignor usually debits the account for the cost value of the goods, and for the freight, drayage, insurance and other charges incurred, if paid by him; and credits the account for the net proceeds. Since the debit side of the account represents the total cost of the particular shipment, and the credit side represents the net returns from the shipment, the account will show by its result either a profit or a loss. If the credit side is the larger, it will show a profit; if the debit side is the larger, it will show a loss.

If a Shipment account remains open at the close of a business period, the difference between the two sides of the account represents a value owned by the business and is known as an asset. The Shipment account, before the net proceeds has been credited, is known as an asset account.

When a general account, *Shipments,* is kept for all shipments, the account is debited for the cost value of all goods shipped on consignment, and for all freight, drayage, insurance and other charges incurred for all shipments, if paid by the consignor; and credited for the net proceeds of each shipment. When this method is followed, separate accounts are usually opened in a subsidiary ledger for each shipment; and the general account, *Shipments,* becomes a summary or controlling account in the general ledger for the many individual accounts in the subsidiary ledger. Review Controlling account on page 14. The Shipments account, after the account is credited for the value of the unsold goods in the hands of each consignee, becomes a summary profit and loss account for all goods shipped on consignment.

SHIPMENT, NO. 1, T. C. MANN

The *object* of keeping an individual Shipment account is to show the amount of profit or loss on goods shipped or delivered to another person for the purpose of sale on commission.

Illustrative Exercise

Transactions relating to a shipment of goods to T. C. Mann, for the purpose of sale on commission, in the books of E. B. Race.

May 1. Shipped the following goods to T. C. Mann, 345 Third Street, Philadelphia, Pa., to be sold on commission.
200 bu. Potatoes (cost price), $1.20.
200 baskets Peaches (cost price), $2.20.
1. Paid drayage charges, $1.60.
1. Paid insurance charges, $1.20.
10. Drew a sight draft on T. C. Mann on account of shipment, $300.00.
15. Received an account sales with a check enclosed for the net proceeds, $431.80.

Shipment, No. 1, T. C. Mann

345 Third Street, Philadelphia, Pa.

Illustration 349

19—												
May	1	Cost	J	17	680 00	May	10	Sight draft	C	22	300 00
	1	Drayage	C	23	1 60		15	Net proceeds	C	22	431 80
	1	Insurance	C	23	1 20						
	15	Profit	J	18	49 00						
					731 80						731 80

Observations: *Debit* a Shipment account for the invoice (usually the cost) value of the goods shipped; for drayage, freight, insurance and other prepaid charges; and for advancements made *by us* on account of the shipment.

Credit a Shipment account for advancements made *to us* on account of the shipments; for all returns (net proceeds); for goods returned.

The *result* of a Shipment account, after the net proceeds have been credited, shows the net profit or loss on goods shipped or delivered to another person for the purpose of sale on commission. The result is found by taking the difference between the two sides of the account.

A Shipment account is closed, usually by a journal entry, showing a profit or a loss from the shipment. If the credit side is the larger, it shows a profit; if the debit side is the larger, it shows a loss.

Exercises for the Student

Prepare the ledger accounts for the following examples.

Exercise 203

Transactions in the books of Louis B. Chase, relating to a shipment of goods to B. B. Newton, 56 Elm Ave., Camden, N. J., for the purpose of sale on commission.

May 1. Shipped the following goods to B. B. Newton, Camden, N. J., to be sold on commission.
200 bu. Potatoes (cost price), $1.15.

50 baskets Apples (cost price), \$1.80.
1. Paid drayage charges, \$2.00.
1. Paid packing charges, \$3.00.
2. Drew a sight draft on B. B. Newton on account of shipment, \$200.00.
20. An account sales was rendered with a check enclosed for the net proceeds, \$148.70.
20. Close the account.

Exercise 204

Transactions in the books of Aaron Dobson, relating to a shipment of goods to J. C. Dryer, for the purpose of sale on commission.

June 1. Shipped the following goods to J. C. Dryer, Cincinnati, Ohio, to be sold on commission.
1. 300 crates Cantaloups (cost price), \$3.00.
1. Paid crating charges, \$3.40.
1. Paid insurance charges, \$1.56.
7. J. C. Dryer reported that three crates of cantaloups were unsalable.
9. Received an account sales with a check enclosed for the net proceeds, \$892.30.
9. Close the account.

Consignments-in.—When the consignee receives goods to be sold on a commission basis, he does not buy the goods but only acts as the agent of the consignor. Records, therefore, should be kept which will enable the consignee to render a true statement to the consignor when the goods are sold.

Since the ownership of the goods is not changed when goods are received to be sold on commission, no entry is made on the general books, because the financial condition of the consignee is not affected. Usually a memorandum record of the goods received is made on a loose-leaf consignment ledger sheet, which may be used as the ledger account for all transactions affecting the particular consignment, as shown in Illustration 355. When the loose-leaf consignment ledger sheets are used, an account is opened in the general ledger, usually under the title of *Consignments-in,* which becomes the controlling account for the loose-leaf subsidiary ledger.

When a separate loose-leaf consignment account is kept for each consignment, the consignee, besides making a memorandum entry on the loose-leaf consignment ledger sheet for the goods received, debits the account for all outlays for freight, drayage, advances, etc., made on account of the consignment; for commission, insurance and other charges deducted when the account sales is rendered; and for the net proceeds; and credits the account for the sales. When the goods have been sold, the charges deducted, and the net proceeds remitted or credited to the consignor's account, the loose-leaf consignment ledger sheet will balance. The consignment accounts, therefore, closely resemble personal accounts. When the Consignment account is debited, it represents an amount for which the consignor would be debited if the value had been paid direct to him *by the consignee,* when credited, it represents an amount for which the consignor would be credited if the value had been paid direct *to the consignee.*

When a general account, *Consignments-in,* is kept for all consignments received, the account is debited for all outlays for freight, drayage, advances, etc., made on account of consignments; for commission, insurance, and other charges deducted when account sales were rendered; and for the net proceeds of each consignment; and is credited for all sales. When this method is followed, separate accounts are usually opened in a subsidiary ledger for each consignment-in, and the general account, Consignments-in, becomes the summary or

controlling account in the general ledger for the many individual accounts in the subsidiary ledger.

Both the controlling account and the individual account methods will be illustrated and used in the text.

CONSIGNMENT-IN, NO. 1, E. B. RACE

The *object* of keeping an individual Consignment-in account is to show the amount due the consignor or due the consignee.

Illustrative Exercise

Transactions relating to a consignment of goods received from E. B. Race in the books of T. C. Mann.

May 1. Received the following goods from E. B. Race, Toms River, N. J., to be sold for his account and risk.
200 bu. Potatoes; 200 baskets Peaches.
1. Paid freight and drayage charges, $4.20.
2. Sold 150 bu. Potatoes at $1.50 per bu.
4. Paid sight draft of E. B. Race on account of consignment, $300.00.
5. Sold 200 baskets Peaches at $2.50 per basket.
10. Sold 50 bu. Potatoes at $1.50 per bu.
15. Rendered account sales and remitted the net proceeds by check. Commission, 7%, on total net sales, $56.00; insurance charges, 1%, on total net sales, $8.00; net proceeds, $431.80.

Consignment-in, No. 1, E. B. Race
Toms River, New Jersey

Illustration 350

19—							19—							
May	1	Freight	C	11	4	20	May	3		S	45	225	00
	4	Sight draft	C	13	300	00		5		S	47	500	00
	15	Commission, 7%	ASR	7	56	00		10		S	51	75	00
	15	Charges, 1%	ASR	7	8	00							
	15	Net Proceeds	C	15	431	80							
					800	00						800	00

Observations: *Debit* a Consignment-in account for all outlays for freight, drayage, advances, etc., made on account of the consignment; for commission, insurance and other charges deducted when the account sales is rendered; and for the net proceeds.

Credit a Consignment-in account for all sales of goods belonging to the consignment.

The *result* of an individual Consignment-in account, if the net proceeds have not been rendered, shows the amount due the consignor or due the consignee. The result is found by taking the difference between the two sides of the account.

If a Consignment-in account remains open at the end of a business period, the difference between the two sides of the account represents a value owned or owed by the business. If the debit side is the larger, it represents an amount due the business and is known as an asset account; if the credit side is the larger, it represents an amount owed by the business and is known as a liability account.

Exercise for the Student

Prepare the Consignment-in ledger account for the following transactions.

Exercise 205

June 1. Received the following goods from J. J. Bates, Trenton, N. J., to be sold for his account and risk.
300 baskets Tomatoes; 100 baskets Peaches.
1. Paid freight charges, $4.60.
4. Sold 200 baskets Tomatoes at $3.00 per basket.
6. Sold 100 baskets Tomatoes at $3.00 per basket; 100 baskets Peaches at $2.00 per basket
9. Remit the net proceeds by check. Commission, 8%; Charges, 2%.

CONSIGNMENTS-IN

The *object* of keeping a controlling account, Consignments-in, is to show, in total, the amount due the consignors or due the consignee.

Illustrated Exercise

The following represent the sum of the individual amounts in each special column or book which were posted separately to the subsidiary loose-leaf consignment-in ledger.

June 30. Cashbook, Consignment-in column, $1,726.00.
30. Sales journal, Consignment-in column, $2,900.00.
30. Account sales register, Commission Earned column, $144.00.
30. Account sales register, Insurance Earned column, $30.00.
30. Account sales register, Accounts Payable column, $200.00.
30. Journal, Consignment-in column, $50.00.

Consignment-in

Illustration 351

19—							19—						
June	30		C	13	1,726	00	June	30		S	7	2,900	00
	30		ASR	7	144	00							
	30		ASR	7	30	00							
	30		ASR	7	200	00							
	30		J	10	50	00							
	30	Balance			750	00							
					2,900	00						2,900	00
							July	1	Balance			750	00

Observations: *Debit* the Consignment-in account for the sum of the individual amounts of each special column or book which were posted separately to the subsidiary loose-leaf consignment-in ledger.

Credit the Consignment-in account for the sum of the individual amounts which were posted separately from the Consignment-in column of the sales journal to the subsidiary loose-leaf consignment-in ledger.

The *result* of the Consignment-in account shows, in total, the amount due the consignors or due the consignee, found by taking the difference between the two sides of the account.

If the debit side is the larger, it represents an amount due the business and is known as an asset account; if the credit side is the larger, it represents an amount owed by the business and is known as a liability account.

The Consignment-in account is closed at certain intervals, at the end of the month or other period, in order to show, in total, the amount due the consignor or due the consignee. While some bookkeepers prefer not to close the Consignment-in account until it balances or to do so only when it is necessary to transfer it to another page, many close it at the end of a business period when the balance sheet is prepared.

COMMISSION EARNED

The *object* of keeping a Commission Earned account is to show the income (Commission Earned) received during a business period for selling merchandise on consignment.

Illustrative Exercise

The following represent the income earned as commission during the business period, for selling merchandise on consignment.

January 31. Account sales register, Commission Earned column, $125.00.
February 28. Account sales register, Commission Earned column, $130.00.
March 31. Account sales register, Commission Earned column, $120.00.
March 31. Journal, Rebate allowed on February commission, $5.00.

Commission Earned

Illustration 352

19—							19—						
Mar.	31		J	11	5	00	Jan.	31		ASR	11	125	00
	31	Profit	J	12	370	00	Feb.	28		ASR	12	130	00
							Mar.	31		ASR	13	120	00
					375	00						375	00

Observations: *Debit* the Commission Earned account for any rebates allowed on commission which were previously credited to the Commission Earned account.

Credit the Commission Earned account for amounts received as commission for selling goods on commission.

The *result* of the Commission Earned account shows the amount of income received as commission for selling goods on consignment, found by taking the difference between the two sides of the account.

The Commission Earned account is closed at the end of a business period, usually by a journal entry, into the Trading division of the Profit and Loss account.

INSURANCE EARNED

The *object* of keeping an Insurance Earned account is to show the income received during a business period to cover charges such as insurance, etc., for selling merchandise on consignment.

Illustrated Exercise

The following represent the income received during the business period to cover charges such as insurance, storage, etc., for selling merchandise on consignment.

January 31. Account sales register, Insurance Earned column, $45.00.
February 28. Account sales register, Insurance Earned column, $30.00.
March 31. Account sales register, Insurance Earned column, $50.00.
March 31. Journal, rebate allowed on March insurance, $5.00.

Insurance Earned

Illustration 353

19—							19—						
Mar.	31		J	11	5	00	Jan.	31		ASR	11	45	00
	31	Profit	J	13	120	00	Feb.	28		ASR	12	30	00
							Mar.	31		ASR	12	50	00
					125	00						125	00

Observations: *Debit* the Insurance Earned account for any rebates allowed which were previously credited to the Insurance Earned account.

Credit the Insurance Earned account for amounts received to cover charges such as insurance, etc.

The *result* of the Insurance Earned account shows the amount of income to cover charges, such as insurance, storage, etc., found by taking the difference between the two sides of the account.

The Insurance Earned account is closed at the end of a business period, usually by a journal entry, into the Trading division of the Profit and Loss statement.

SUNDRY DEBTORS

Sundry Debtors.—When goods are sold to persons or firms who in all probability will not become regular customers, it is more economical to open a *Sundry Debtors* account than to open a separate account with each customer. When an amount is posted to the Sundry Debtors account, the name of the customer is written in the explanation space. When the amount is paid, the Sundry Debtors account is credited on the same line with the original charge, and the name of the customer is written in the explanation space. The following illustrates the form and arrangement of a Sundry Debtors account in which two amounts have not been paid.

Sundry Debtors

Illustration 354

19—							19—						
June	1	T. C. Jones	S	24	42	00	June	6	T. C. Jones	C	40	42	00
	8	J. J. Butler	S	25	36	00							
	10	C. C. Mann	S	26	82	50		14	C. C. Mann	C	42	82	50
	14	E. H. Hill	S	26	46	25							

When a schedule or list of the accounts in the sales ledger is prepared, the balance of the Sundry Debtors account is listed as one of the accounts receivable accounts. The names of the sundry debtor customers composing the balance are listed beneath and the amounts short extended.

Account Sales.—After the consignee has sold the goods which he received from the consignor, it is necessary for him to render a statement of the sale to the consignor. This statement is known as an *account sales.* The account sales of different firms vary in form but they all show in detail the quantity of the goods received, the sales, the charges, the net proceeds and the disposition of the net proceeds.

Account Sales

Illustration 355

Lot No. (A) No. 56

T. C. MANN

Commission Merchant

345 THIRD STREET
PHILADELPHIA, PA.

Account sales of Potatoes and Peaches **Received** May 1, **19**

Sold for the account of E. B. Race

Toms River, N. J.

RECEIVED

200 bu. Potatoes
200 baskets Peaches

DATE		CHARGES		F	DR.		DATE		SALES	SALES ORDER	UNIT PRICE		CR.	
May	1	Freight	C	17	4	20	May	3	150 bu. Potatoes	24	1	50	225	00
	4	Sight Draft	C	19	300	00		5	200 bkts. Peaches	36	2	50	500	00
	15	Commission ASR		22	56	00		10	50 bu. Potatoes	48	1	50	75	00
	15	Ins. Charges ASR		22	8	00								
	15	Net Proceeds by check		22	431	80								
					800	00							800	00

Journal

May 1, 19—

Illustration 356

Consignments-in Dr.		General Ledger Dr.		F	Accounts and Explanation	General Ledger Cr.		Accounts Receivable Cr.	
					T. C. Mason and W. W. Brown have this day entered into a partnership agreement to carry on the commission business, at 615 Liberty Street, under the firm name of Mason & Brown.				
					T. C. Mason invests the following assets and the firm assumes the payment of the following liabilities:				
		1,250	00	9	Cash				
		3,000	00	14	Lot, 615 Liberty Street				
		8,500	00	17	Building, 615 Liberty Street				
		200	00	23	Insurance Prepaid				
					Building, $120.00				
					Stock of merchandise, 80.00				
		1,400	00	25	Furniture and Fixtures				
		1,864	00	26	Merchandise Inventory				
		3,657	25	28	Accounts Receivable				
		500	00	32	Notes Receivable				
		40	00	33	Fuel and Light				
				45	Reserve for Depreciation on Building	1,500	00		
				48	Reserve for Depreciation on Furniture and Fixtures	300	00		
				56	Accounts Payable	1,203	36		
				38	Notes Payable	407	89		
				37	T. C. Mason, Capital	17,000	00		
					8				
24	50			√	Consignment D-3				
				√	Eastern Produce Co.			24	50
					Rebate allowed on damaged goods.				
					10				
		56	20	45	Merchandise Sales				
				√	Andrew H. Haines			56	20
					Goods returned for credit.				
					15				
10	00			√	Consignment F-2				
				√	William Reese			10	00
					Overcharge on sale of 5/7				
34	50	20,467	45		Dr. General Ledger Cr.	20,411	25	90	70
		34	50	75	Consignments-in Dr.				
				28	Accounts Receivable Cr.	90	70		
		20,501	95			20,501	95		

Cash Receipts

Illustration 357

DATE	F	ACCOUNT	EXPLANATION	CONSIGNMENT-IN CR.	ACCOUNTS RECEIVABLE CR.	DISCOUNT ON SALES DR.	GENERAL LEDGER CR.	INTEREST PAID DR.	CASH DR.
19—									
May 1		Balance							5,286 60
3	√	E. H. Hill & Co.	4/20, 2%		450 00	9 00			441 00
5	8	Notes Rec. Disc.	Jones 4/25				400 00	.67	399 33
10	√	Consignment-in, C-2	cash sale	48 00					48 00
11	√	E. H. Hellerman	4/11, 3%		800 00	24 00			776 00
14	32	Notes Receivable	Smith 3/14				500 00		500 00
14	41	Interest Earned	on above				5 00		5 00
15	18	Trade Accep. Rec. Disc.	Race 3/20				400 00	2 66	397 34
20	√	Consignment-in D-3	cash sale	36 50					36 50
31	75	Consignment-in, Cr.		84 50					
31	28	Accounts Receivable, Cr.			1,250 00				
31	40	Discount on Sales, Dr.				33 00			
31	√	General Ledger					1,305 00		
31	39	Interest Paid, Dr.						3 33	
31	9	Cash, Dr.							2,603 17
		Balance May 1							5,286 60
									7,889 77
June 1		Balance							5,819 27

Books Used.—The books used in this set are the journal, cashbook, petty cashbook, purchases journal, sales journal, notes receivable book, notes payable book, account sales register, check book, general ledger, sales ledger, purchases ledger, and consignment ledger.

The notes receivable and notes payable books have been fully explained and illustrated in previous sets.

Trade acceptances receivable and trade acceptances payable will be recorded in the notes receivable and notes payable books respectively in this set, since no provision has been made for a separate record.

Journal.—The columnar form of the journal is used in this set. Columns are provided for *Consignment-in Debits* and *Accounts Receivable Credits* besides the two *General Ledger* columns as shown in the model journal on page 81. The journal will be used for recording transactions which can not be properly entered in other books of original entry, adjustment entries, and closing entries.

The *Consignment-in Debits* column is provided for recording debit journal entry items which affect accounts in the loose-leaf consignment ledger. The individual amounts in this column are posted separately to the debit side of the proper accounts in the loose-leaf consignment ledger, and the total is posted to the debit side of the controlling account, Consignments-in, in the general ledger.

The *General Ledger Debits* column is provided for recording debit journal entry items other than those entered in the Consignment-in Debits column. The individual amounts in this

Cash Payments

Illustration 357

Date		F	Account	Explanation	Consignment-in Dr.		Accounts Payable Dr.		Discount on Purchases Cr.		General Ledger Dr.		Interest Earned Cr.		Cash Cr.	
19—																
May	1	√	Walters & Brown	3/10, 4%			400	00	16	00					384	00
	3	9	Petty Cash	general use							50	00			50	00
	5	√	Consignment-in D-4	freight	10	50									10	50
	6	38	Notes Payable	Smith, 4/16							400	00	2	00	398	00
	9	√	Consignment-in C-3	net proceeds	475	20									475	20
	15	√	W. W. Cleaver	3/12, 2%			160	00	3	20					156	80
	17	14	General Expense	salaries							200	00			200	00
	20	√	Consignment-in A-5	adv'ce less disc.	400	00							4	00	396	00
	31	75	Consignment-in, Dr.		885	70										
	31	50	Accounts Payable, Dr.				560	00								
	31	36	Disc. on Purchases, Cr.						19	20						
	31	√	General Ledger								650	00				
	31	39	Interest Earned, Cr.										6	00		
	31	9	Cash, Cr.												2,070	50
	31	√	Balance on hand												5,819	27
															7,889	77

column are posted separately to the debit side of the proper accounts in the general ledger. The footing of this column is not posted.

The *Accounts Receivable Credits* column is provided for recording credit journal entry items which affect accounts in the sales ledger. The individual amounts in this column are posted separately to the credit side of the proper accounts in the sales ledger, and the total is posted to the credit side of the controlling account, Accounts Receivable, in the general ledger.

The *General Ledger Credits* column is provided for recording credit journal entry items other than those entered in the Accounts Receivable Credits column. The individual amounts in this column are posted separately to the credit side of the proper accounts in the general ledger. The footing of this column is not posted.

Cashbook.—The columnar form of the cashbook is used in this set. Columns are provided on the debit side for *Consignments-in, Accounts Receivable, Discount on Sales, General Ledger, Interest Paid,* and *Cash Dr.* All cash received is entered in the *Cash Dr.* column; if the amount received affects a consignments-in account, enter the amount in the *Consignments-in* column; if the amount received is in payment of personal accounts receivable, enter the amount in the *Accounts Receivable* column; if a sales discount is allowed, enter the amount of the discount in the *Discount on Sales* column, and the sum of the net cash received and the sales discount allowed in the *Accounts Receivable* column; if a non-interest bearing note receivable or trade acceptance receivable is discounted, enter the amount of the discount

(interest) in the *Interest-Paid* column, and the sum of the net cash received and the discount (interest) allowed in the *General Ledger* column.

Columns are provided on the credit side of the cashbook for *Consignments-in*, *Accounts Payable*, *Discount on Purchases*, *General Ledger*, *Interest Earned*, and *Cash Cr.* All cash paid out is entered in the *Cash Cr.* column; if the amount paid out affects a consignment-in account, enter the amount in the *Consignments-in* column; if the amount paid is in payment of personal accounts payable, enter the amount in the *Accounts Payable* column; if a purchases discount is allowed, enter the amount of the discount in the *Discount on Purchases* column, and the sum of the net cash paid and the purchases discount allowed in the *Accounts Payable* column; if a non-interest bearing note payable or trade acceptance payable is paid before maturity, enter the amount of the discount (interest) in the *Interest Earned* column; and the sum of the net cash paid and the discount allowed in the *General Ledger* column; or if it be a trade acceptance which is prepaid before acceptance, enter the sum in the *Accounts Payable* column, as explained and illustrated in the previous month's work.

Petty Cashbook.—The petty cashbook is used in this set as a book of original entry. Columns are provided for *Receipts*, *Payments*, *Consignments-in*, *General Expense*, and *Selling Expense.* All cash received is entered in the *Receipts* column, and all cash paid is entered in the *Payments* column and the amount extended into the proper special column. At the end of the month, the *Petty Cash* account is credited for the total amount of the petty cash payments, and the special distribution columns are footed and the columns ruled off. The total of the footings of the special distribution columns should agree with the footing of the *Payments* column. The footings of the special columns should be posted to their respective accounts in the general ledger, following the method used in Illustration 337.

Purchases Journal

Illustration 358

Date		F	Account Credited	Address	Terms	Invoice Number	Accounts Payable Cr.	Consignments-in Cr.	Mdse. Purchases Dr.
19—									
May	4	19	C. J. Mason	237 Union Ave.,	3/10, n/60	56	345 50		345 50
	7	17	H. F. Wilson	Boston, Mass.	2/10	57	350 00		350 00
	9	√	Consignment-in B-2					320 50	320 50
	13	√	Consignment-in A-2					120 00	120 00
	31	56	Accounts Payable, Cr.				695 50		
	31	75	Consignments-in, Cr.					440 50	
	31	17	Merchandise Purchases,	Dr.					1,136 00

Purchases Journal.—The columnar form of the purchases journal is used in this set. Columns are provided for *Accounts Payable Cr.*, *Consignments-in Cr.*, *Mdse. Purchases Dr.* All purchases are entered in the *Mdse. Purchases Dr.* column; if the amount of goods received by the business is from a creditor, enter the amount in the *Accounts Payable Cr.* column; if the amount has been taken from goods received by the business for sale on commission, enter the amount in the *Consignments-in Cr.* column.

The *Accounts Payable Cr.* column is provided for recording invoices of goods received from creditors. The individual amounts in this column are posted separately to the credit side of

the proper account in the purchases ledger, and the total is posted to the credit side of the controlling account, Accounts Payable, in the general ledger.

The *Consignments-in Cr.* column is provided for recording amounts of sales taken from goods received by the business for sale on commission. The individual amounts in this column are posted separately to the credit side of the proper account in the loose-leaf consignment ledger, and the total is posted to the credit side of the controlling account, Consignments-in, in the general ledger.

The *Mdse. Purchases Dr.* column is provided for recording the amounts of all purchases whether from creditors or from consignments-in. The footing of this column is posted to the debit side of Merchandise Purchases account in the general ledger.

Sales Journal

Illustration 359

DATE		F	ACCOUNT DEBITED	ADDRESS	TERMS	SALES NUMBER	ACCOUNTS REC. DR.		CONSIGN-MENT-IN CR.		MDSE. SALES CR.	
19—												
May	1	13	John C. Kerr	Boston, Mass.	on a/c	74	463	00	400	00	63	00
	3	14	J. K. Scott	17 Fourth St.	2/10, N/30	75	196	50	196	50		
	8	32	T. B. Williams	38 Lake St., City	on a/c	76	650	00	500	00	150	00
	13	36	F. A. Ross	112 Fifth Ave., N Y.	on a/c	77	375	50	200	00	175	50
	31	19	Accounts Receivable, Dr.				1,685	00				
	31	24	Consignments-in, Cr.						1,296	50		
	31	39	Merchandise Sales, Cr.								388	50

Sales Journal.—The columnar form of the sales journal is used in this set. Columns are provided for *Accounts Receivable Dr.*, *Consignments-in Cr.* and *Merchandise Sales Cr.* All sales are entered in the *Accounts Receivable Dr.* column; if the goods sold have been taken from the firm's own merchandise, enter the amount in the *Merchandise Sales Cr.* column; if the goods have been taken from one or more consignments-in, enter the amount in the *Consignments-in Cr.* column.

The *Accounts Receivable Dr.* column is provided for recording the amounts of all sales taken from either the firm's own merchandise or from goods belonging to consignments-in. The individual amounts in this column are posted separately to the debit side of the proper accounts in the sales ledger, and the total is posted to the debit side of the controlling account, Accounts Receivable, in the general ledger.

The *Merchandise Sales Cr.* column is provided for recording the amounts of sales taken from the firm's own merchandise. The footing of this column is posted to the credit side of the Merchandise Sales account in the general ledger.

The *Consignments-in Cr.* column is provided for recording the amounts of sales taken from goods received by the business to be sold on commission. The footing of this column is posted to the credit side of the controlling account, Consignments-in, in the general ledger. Great care should be taken in recording the sales in the sales journal. If an amount should be recorded in the Consignments-in column which belonged in the Merchandise Sales column, the profit and loss statement would not show the correct profit or loss. The Consignments-in account represents either an asset or a liability.

Account Sales Register

Illustration 360

Date		Lot No	Consignor	Total Sales	Previous Charges: Charges	Previous Charges: Drayage	Present Charges: Insurance Earned Cr.	Present Charges: Commission Earned Cr.	Advances	P	Accounts Payable Cr.	Proceeds
19—												
May	6	B-1	Walter Scott	1,000 00		8 00	20 00	80 00	500 00	√		392 00
	11	C-1	John Harkins	450 00		2 50	9 00	36 00		√		402 50
	13	A-1	H. L. Davis & Co.	810 00	1 25	5 00	16 20	64 80	400 00	√		322 75
	18	D-1	Frank Davis	250 00		2 00	5 00	20 00		34	223 00	223 00
	20	B-2	Walter Scott	600 00		3 00	12 00	48 00	200 00	42	337 00	337 00
			Consignment Dr. (40), Insurance Earned Cr. (18)				62 20					
			Consignment Dr. (40), Commission Earned Cr. (19)					248 80				
			Consignment Dr. (40), Accounts Pa[illegible]. Cr. (1[illegible])								560 00	

Account Sales Register.—The columnar form of the account sales register is used in this set. Columns are provided for *Total Sales, Charges, Drayage, Insurance Earned, Commission Earned, Advances, Accounts Payable,* and *Proceeds.* When an account sales is rendered, a record of it is made in the account sales register.

The *Total Sales* column is provided for recording the total amount of sales of each consignment-in. Since this is only a memorandum column, the amounts are not posted from this column.

The *Charges* column is provided for recording advance charges, a record of which was made in the cashbook and posted to the loose-leaf consignment ledger. Since this is only a memorandum column, the amounts are not posted from this column.

The *Drayage* column is provided for recording advance charges for freight, drayage, etc., a record of which was made in the cashbook and posted to the loose-leaf consignment ledger. Since this is only a memorandum column, the amounts are not posted from this column.

The *Insurance Earned* column is provided for recording the insurance charges calculated on the total net sales at the time an account of sales is rendered. The footing of this column is posted to the debit side of the *Consignments-in* account and the credit side of the *Insurance Earned* account.

The *Commission Earned* column is provided for recording commission charges calculated on the total net sales at the time an account of sales is rendered. The footing of this column is posted to the debit side of the *Consignments-in* account and the credit side of the *Commission Earned* account.

The *Advances* column is provided for recording any advances made on account of the consignments-in. Since this is only a memorandum column, the amounts are not posted from this column.

The *Accounts Payable* column is provided for recording amounts due consignors when the net proceeds are placed to their account. The individual amounts in this column are posted separately to the credit side of the proper account in the purchases ledger, and the total is posted to the debit side of the controlling account, Consignment-in, and to the credit side of the controlling account, Accounts Payable, in the general ledger.

The *Proceeds* column is provided for recording the net proceeds of each consignment-in

when the account of sales has been rendered. Since this is only a memorandum column, the amounts are not posted from this column.

Comment: Some commission merchants do not keep an account sales register, but post the charges, commission, etc., directly from duplicate consignment ledger sheets.

Sales Order.—The sales order used in this set is provided with a special column in which to record the sales made from consignments, and another in which to record sales made from merchandise owned by the business. The sum of the two columns should agree with the amount of the bill. A space is provided in which to record the lot number of the consignment from which the merchandise was sold. This space is left blank when merchandise belonging to the business is sold.

The following represents a sales order where potatoes were sold from merchandise owned by the business and peaches were sold from consignment *A-1*. Note the space for the folio of the sales journal as well as the sales ledger.

SALES ORDER

Illustration 361

Date May 1, 19__ Terms on acct. Sold by Smith	**MASON & BROWN** *COMMISSION MERCHANTS* 615 LIBERTY STREET PHILADELPHIA, PA. Sold to JOHN C. KERR Boston, Mass.	No. 34 S. J. Folio 45 S. L. Folio 32

LOT NO.	CK.	ARTICLE SOLD	ITEMS		CONSIGNMENT-IN		MDSE.	
	√	10 brls. Potatoes 6.30	63	00			63	00
A-1	√	200 baskets Peaches 2.00	400	00	400	00		
		Total	463	00	400	00	63	00

Loose-Leaf Ledger.—For the subsidiary ledgers, the loose-leaf form of the ledger is sometimes preferred to the bound ledger. The subsidiary ledger may contain accounts with only a few items, which may be closed permanently at any time; or accounts containing numerous items, which fill the space in a short period. The bookkeeper finds it very inconvenient to have a number of closed accounts in the working ledger. With the loose-leaf ledger the bookkeeper can easily remove the leaves which contain the closed accounts, and file them in a *transfer binder* for future reference if the information which they contain is desired.

Loose-Leaf Balance Ledger.—The balance form of the ledger will be used in this set for the sales ledger accounts and the purchases ledger accounts.

Sales Ledger.—Columns are provided for recording the Debit and Credit items and the Balance. The Balance column is placed in the middle of the page, with the Debit column on the left and the Credit column on the right. This form and arrangement of the sales ledger makes it convenient to use a checking system when bills are paid. When a bill is paid a small figure is written opposite the payment as well as the original debit. If a bill is paid by installments, neither the amount of the bill or the installment is checked, but a memorandum is made in the explanation space, indicating on which bill the payment is to apply. When the last payment of a bill is made, the same check figure is placed by the side of each installment and the original bill.

Only the amounts which remain unchecked are considered when the balance of an account is required. The balance is written in the balance column at the end of the month and should agree with the statement sent to the customer.

Sales Ledger

Illustration 362

Cunningham, Brown & Co.,

314 Lake St., Chicago, Ill.

DATE		SALES NO.	TERMS	F.	DEBIT		BALANCE		CREDIT		DATE		F	EXPLANATION
19—											19—			
May	1	36	2% 10 days	8	345	50	[2]		[1] 425	56	May	10	50	C
	5	48	2/10, n/30	9	780	00	[4]		[2] 345	50		10	50	C
	10	56	cash	13	425	56	[1]		[4] 400	00		15	52	C bill 5/5.
	15	64	on acct.	34	437	45			[3] 565	00		25	4	note, 30 days
	20	68	net 30 days	9	200	00			[4] 380	00		25	54	C bill 5/5
	25	79	note 30 days	5	565	00	[3] 637	45						

Selling Price List for May and June

Peaches, per basket	$2.00
Apples, per barrel	7.50
Bananas, per bunch	3.00
Potatoes, per barrel	6.30
Cantaloups, per basket	2.00
Tomatoes, per basket	3.00
Cherries, per crate	2.50
Lemons, per crate	5.00
Eggs, per dozen	.30
Butter, per pound	.40

COMMISSION BUSINESS, MASON & BROWN

May 1, 19—

Preliminary Work.—You have been employed as bookkeeper for the commission business of Mason & Brown, located at 615 Liberty Street, Philadelphia, Pa., at a monthly salary of $60.00, payable semi-monthly.

T. C. Mason has been engaged in selling vegetables, fruits, and country produce on commission. In order to enlarge the scope of the business a partnership has been formed under the firm name of Mason & Brown.

The Articles of Copartnership contains among other things, the following facts, which should be carefully studied by the bookkeeper. 1. The members of the firm of Mason & Brown are T. C. Mason and W. W. Brown. 2. T. C. Mason is to invest a portion of the assets and the firm is to assume the liabilities of his former business. In addition he is to invest a sufficient amount of cash to make his net investment $12,500.00. 3. W. W. Brown is to invest in cash $12,500.00. 4. Each partner is to receive a monthly salary of $150.00. 5. The profits and losses are to be shared equally. 6. The partnership is to continue five years unless dissolved by mutual consent of the partners.

No. 1.—Since the firm desires to install more modern methods of bookkeeping for their commission business, specially ruled books and forms have been prepared for recording the transactions. A list of the ledger accounts used in this set will be found on the pad of Incoming Vouchers marked No. 1a. Open the accounts in the general ledger in the order indicated, placing three accounts on each page. Prepare the index of the general ledger.

T. C. Mason's Investment.—The following represent the various assets invested by T. C. Mason and the liabilities assumed by the business.

T. C. Mason's Investment, May 1, 19—

Assets							
Cash in the Commercial Bank			1,250	00			
Accounts Receivable, Exhibit A			2,119	36			
Merchandise Inventory, Exhibit C			1,134	00			
Current Assets						4,503	36
Lot, 615 Liberty Street			3,000	00			
Building, 615 Liberty Street	6,500	00					
Less, Reserve for Depreciation of Building	1,500	00	5,000	00			
Furniture and Fixtures	1,100	00					
Less, Reserve for Depreciation of Fur. and Fix.	100	00	1,000	00			
Fixed Assets						9,000	00
Insurance Prepaid							
On Building	120	00					
On stock of merchandise	80	00					
Deferred assets						200	00
Total Assets						13,703	36
Liabilities							
Accounts Payable, Exhibit B						1,203	36
T. C. Mason's investment						12,500	00

Opening Journal Entry.—Following the model journal entry on page 81, prepare a journal entry for recording the accounts and the respective amounts of the assets, liabilities and proprietary interest of T. C. Mason.

W. W. Brown's Investment.—Check from W. W. Brown for $12,500.00 as per partnership agreement. The check will be found on the pad of Incoming Vouchers marked No. 1b.

Cashbook Record.—Make two cashbook records for recording (1) the cash invested by T. C. Mason and (2) the cash invested by W. W. Brown.

Place a check mark, thus √, in the folio columns of the journal and the cashbook for the record of T. C. Mason's cash investment, since his account will be credited from the journal.

Post the opening journal and cashbook entries. For an explanation in the ledger accounts write *Inventory* for the deferred assets, and *Balance* for all other accounts except Merchandise Inventory which does not need an explanation.

Sales and Purchases Ledger Record.—Open an account on a loose-leaf ledger card with each customer listed on Exhibit A, and with each creditor listed on Exhibit B on the loose-leaf ledger cards found among your business forms. Enter the date, terms and amount on the proper side of the ledger account and extend the amount into the balance column.

Check the sales ledger against the customers' accounts in Exhibit A, and prove it by comparing the sum of the debit balances of the sales ledger with the balance of the Accounts Receivable account in the general ledger. Likewise check and prove the purchases ledger with the Accounts Payable account in the general ledger.

The books are now ready to receive the records for the current business period.

Transactions

MAY 1

No. 2.—Open an account with the Commercial Bank.

Enter the amount of cash invested by T. C. Mason in both the bank book and the check book. Deposit W. W. Brown's check, which is made payable to Mason and Brown.

No. 3.—Pay, by check, the Underwood Typewriter Company's bill.

Debit *Office Equipment* account.

No. 4.—Draw a check for general office use, $20.00.

Review Petty Cash Fund on page 34.

MAY 3

No. 5.—Invoice of shipment from T. B. Conner, Lima, Ohio, to be sold on commission

The stencil mark assigned to this shipment is *A-1*. Prepare a loose-leaf consignment ledger account and list each item of merchandise received, as shown in Illustration 355.

No. 6.—Invoice of shipment from Walter T. Thompson, 1705 Hill Avenue, Louisville, Ky.

The stencil mark assigned to this shipment is *B-1*. Follow the instructions previously given.

No. 7.—Pay, by check, the City Printing Company's bill for stationery, etc.

Debit *Office Supplies* account.

No. 8.—An order for merchandise from H. F. Wilson.

Use the selling price list found on page 88.

Take the peaches from your own goods; the apples from lot *B-1;* and the cantaloups and tomatoes from lot *A-1*. Extend the selling price of the peaches into the Merchandise column, and the apples, cantaloups and tomatoes into the Consignment-in column. Transfer the items sold from consignment to the proper consignment ledger account under *Sales*, as shown

in Illustration 355. Place a check mark, thus, √, before each stencil mark on the Sales Order, to indicate that it has been transferred to the proper consignment ledger account.

Next, fill in the *Total* at the bottom of the order, as shown in Illustration 361, and record it in the sales journal, beginning with the sales number 300. Post the amount of the sale at once from the *Sales Order* to the customer's ledger account.

Prepare the bill and place it in *Vouchers for Others* envelope.

No. 9.—Pay, by check, the National Transportation Company's bill for freight charges on the consignments received May 3.

A record for the freight charges on each consignment should be recorded separately in the Consignment-in column of the cashbook, and posted to the proper consignment account in the loose-leaf consignment ledger. The posting should be done immediately. If an *Account Sales* were rendered before the freight charges were posted, the *Net Proceeds* would be incorrectly stated.

MAY 4

No. 10.—Check from H. F. Wilson in full payment of account to May 1.

No. 11.—Extend the amount of each item on this order into the proper column.

Enter in the sales journal and the loose-leaf consignment ledger, and post the amount from the *Sales Order* to the customer's ledger account.

MAY 5

No. 12.—Invoice of shipment from J. Barton & Sons to be sold on commission.

The stencil mark assigned to this shipment is *C-1*. Pay the freight and drayage charges, $5.20, from the Petty Cash drawer. Enter the amount in the Payments column of the petty cashbook and extend the amount into the Consignment-in column. Debit J. Barton & Sons' account in the loose-leaf consignment ledger directly from the petty cashbook.

MAY 6

No. 13.—Invoice from J. L. Scott, Reading, Pa.

Verify the calculations and enter the invoice in the purchases journal.

No. 14.—W. W. Green & Company, 135 East Front St., New York City, wire us that they can make an immediate sale of 40 barrels of apples at a price that would warrant our shipping the apples to them to be sold on commission.

Prepare a shipment invoice for 40 barrels of apples at $6.00. Enter in the journal, debiting *Shipment No. 1, W. W. Green & Co.* and crediting *Merchandise Purchases* account. Review Shipment account on page 73. The Merchandise Purchases account is credited for the *cost value* of the merchandise shipped to be sold on commission. Since a Shipment account is debited not only for the cost value of the merchandise but for prepaid insurance, freight, drayage and other charges, and credited for the net returns, it will show by its result either a profit or a loss.

Pay the following from the Petty Cash drawer: Insurance, $2.00; drayage, $4.00. Debit *Shipment No. 1, W. W. Green & Co.*, for the insurance and drayage from the petty cashbook.

Commission merchants seldom become consignors or ship merchandise to be sold on commission. The consignors of merchandise are usually farmers, manufacturers, country merchants, etc., who do not have an opportunity to place their goods on the market advantageously. We have introduced a few transactions affecting Shipment accounts, but none of the special books which are found in a large shipping business.

Every bookkeeper will, early in his career, find that he must record some unusual transaction which cannot be entered properly in the special books which he is using. In such cases he must exercise judgment in determining how it should be recorded. Usually the transaction

may be entered conveniently in the journal but should a number of such transactions occur, a special column or book should be prepared.

No. 15—We have found 10 baskets of peaches belonging to lot *B-1* to be so overripe as to be unsalable.

Turn to your consignment ledger for lot *B-1* and make a memorandum entry underneath the last sale as follows: *10 baskets peaches unsalable.* Write a letter to Walter T. Thompson, the consignor, informing him of the condition of the fruit.

No. 16.—Extend the amount of each item on this order into the proper column; terms, cash less 2%.

Enter the full amount of the sale in the sales journal, the consignment account, and the customer's account. Make the proper cashbook entry for the check.

No. 17.—Order from Read and Murphey, Omaha, Nebr.; terms, on account.

No. 18.—Turn to the consignment ledger for lot *B-1*, Walter T. Thompson, and check the articles sold with the articles received. If all the merchandise has been sold or reported unsalable, prepare an Account Sales for this consignment account.

Determine the total amount of sales by adding the credit or sales column on the loose-leaf consignment ledger account. Calculate the commission at 8% on the total sales; the insurance charges at 2% on the total sales. Subtract from the total amount of sales the sum of the commission, insurance charges, and previous charges or advances. The difference will be the *net proceeds.* Make a proper record in the account sales register for lot *B-1* as shown in Illustration 360. Post the present charges, Commission Earned and Insurance Earned, from the account sales register to the Consignment account *B-1.* Issue a check in favor of the consignor for the net proceeds, record it in the Consignment-in column of the cashbook, and post the amount to the consignment account *B-1.* This balances the consignment account *B-1.* File the Account Sales, together with the check, in the *Vouchers for Others* envelope.

MAY 8

No. 19.—Deposit all checks on hand. Prove cash and submit your proof to your instructor for approval.

No. 20.—Invoice of shipment from John J. Howard & Company, New Orleans, La., together with their 10-days' sight draft for $200.00.

The stencil mark assigned to this shipment is *D-1.* Prepare the loose-leaf consignment ledger account as previously instructed. Accept the draft and make the proper record in the notes payable book and on the debit side of the loose-leaf consignment ledger account, writing *10-days' sight draft* in the explanation column. Pay drayage charges, $4.20, from the Petty Cash drawer. Post the amount to the consignment account *D-1.*

No. 21.—Order from Charles Smith & Co., 927 Federal St., Pittsburgh, Pa.; terms, 10-day trade acceptance.

Extend the amount of each item on this order into the proper column and record as previously instructed. Draw a 10-day trade acceptance and have your instructor accept it for Charles Smith & Co. Enter it in the notes receivable book.

No. 22.—Discount Charles Smith & Co.'s 10-day trade acceptance at the Commercial Bank and receive credit for the proceeds.

Prepare a discount memorandum. Credit *Notes Receivable Discounted* account.

No. 23.—Post all transactions to date. Do not foot the special columns or post the totals.

MAY 10

No. 24.—Pay, by check, the Ajax Truck Company's bill for a 5-ton delivery truck, $2,500.00.

Debit *Delivery Equipment* account.

No. 25.—Issue a check in favor of W. W. Fox, Commissioner, State Highway Department, for $40.00 in payment of owner's license.

Debit *Delivery Expense & Income* account.

Issue a check in favor of the Aetna Insurance Company for $150.00 in payment of a fire, theft and liability insurance policy on truck.

Debit *Insurance prepaid* account.

No. 26.—Pay, by check, bill for gas and oil for truck.

Debit *Delivery Expense & Income* account.

No. 27.—Check from E. H. Hill & Company in full payment of account.

No. 28.—Order from Walter E. Myers, who has agreed to accept our 15-day trade acceptance.

Fill the order and make the proper entries. Draw a 15-day trade acceptance and present it to your instructor, who will accept it for Walter E. Myers.

No. 29.—Account Sales and check from W. W. Green & Co.

Make the necessary cashbook entry, crediting *Shipment No. 1, W. W. Green & Company's* account, for the net proceeds.

MAY 11

No. 30.—Deposit all checks on hand. Prepare a proof of cash.

No. 31.—Extend the items of this order into the proper columns. Record as previously instructed.

No. 32.—The butter and eggs received from J. Barton & Sons, Lot *C-1*, have been sold.

Prepare an Account Sales for lot *C-1;* commission 8%; insurance charges, 2%. Issue a check in favor of J. Barton & Sons for the net proceeds, record it in the cashbook, post, and close the consignment ledger account.

No. 33.—Check from the Eastern Produce Company, Baltimore, Md., in payment of bill of April 11.

MAY 12

No. 34.—Check from H. F. Wilson, Boston, Mass., in payment of bill of May 3, less discount.

No. 35.—Invoice of shipment from George L. Moore, 345 Lehigh Ave., Cincinnati, Ohio.

The stencil mark assigned to this shipment is *E-1*.

No. 36.—Invoice of shipment from Walter T. Thompson, Louisville, Ky.

The stencil mark assigned to this shipment is *B-2*. This is the second shipment from Walter T. Thompson. Pay the freight charges, $2.80, from the Petty Cash drawer.

MAY 13

No. 37.—Extend the amount of each item of this order into the proper column.

No. 38.—Extend the amount of each item of this order into the proper column.

No. 39.—At the request of T. B. Conner, Lima, Ohio, 50 barrels of apples from lot *A-1* have been returned.

Turn to your consignment ledger for lot *A-1* and make a memorandum entry underneath the last sale as follows: *50 barrels of apples returned.*

No. 40.—Render an account sales for Lot *A-1;* commission, 8%; insurance, 2%. Place the net proceeds to the credit of the consignor.

MAY 14

No. 41.—Statement from T. C. Mason showing amounts paid for the business from his own private funds.

Issue a check in payment, make the necessary cashbook entries from the information given on the statement, and post to the proper ledger accounts.

No. 42.—Check from Read & Murphey in payment of bill of April 14.

No. 43.—Invoice from Charles J. Klein, Muncie, Ind.

Enter in the purchases journal.

No. 44.—Issue a check in favor of J. L. Scott, Reading, Pa., in payment of invoice of May 6, less discount.

MAY 15

No. 45.—Issue a check in favor of W. L. Walters, Newark, N. J., for invoice of April 15.

No. 46.—Prove cash and submit your proof to the instructor for approval. Deposit all checks on hand.

No. 47.—Check from C. J. Smith & Sons, in payment of bill of April 15, less discount.

No. 48.—Extend the items of this order, prepare the bill, and make the necessary entries. Your instructor will accept the trade acceptance for your customer.

No. 49.—Discount Walter E. Myers' trade acceptance at the bank and receive credit for the proceeds.

No. 50.—Write a check in favor of yourself for $30.00, one-half month's salary. Also write one in favor of H. F. Smith, salesman, for $30.00.

Debit *General Expense* account and *Selling Expense* account for their respective amounts.

MAY 17

No. 51.—Issue a check in favor of F. J. Willis for $250.00, to apply on account.

No. 52.—Invoice of shipment from W. O. Weaver, Chicago, Ill., accompanied by a 10 days sight draft.

The stencil mark assigned to this shipment is *F-1*. Prepay the 10-days' sight draft by issuing your check for the proceeds. Enter the full amount of the draft in the Consignment-in column of the cashbook; the discount (Interest) in the Interest Earned column, and the cash paid out in the Cash Cr. column. Enter the amount of the prepaid draft in the loose-leaf consignment ledger, as previously instructed.

No. 53.—W. W. Brown reports that the following cash sales have been made from lot *B-2*: 10 barrels of apples at $7.50; 10 baskets of peaches at $2.00; total, $95.00.

Mr. Brown deposited the $95.00 in the bank, as shown by the duplicate deposit ticket enclosed. Enter the amount of the deposit on the stub of the check book and place the dupli-

cate deposit ticket in the pass book. Have the deposit entered in the pass book when you make your next deposit. Make a record in the cashbook crediting Consignment *B-2* in the Consignment-in column, and extend the amount in the Cash Dr. column. Cash sales are not entered in the sales journal. Enter the two items in the loose-leaf consignment ledger for lot *B-2*.

No. 54.—Order from H. F. Wilson, Boston, Mass.

Prepare the trade acceptance and have your instructor accept it for H. F. Wilson.

No. 55.—Discount H. F. Wilson's trade acceptance at the bank and receive credit for the proceeds.

MAY 18

No. 56.—The Commercial Bank notifies you that John J. Howard & Co.'s draft, accepted May 8 and made payable at the bank, has been charged to your account as instructed by T. C. Mason.

Make the necessary cashbook and check book entries.

No. 57.—Bank draft from W. W. Taylor in payment of bill of April 19, less discount.

No. 58.—Order from W. W. Taylor.

No. 59.—At the request of John J. Howard & Company, consignor of lot *D-1*, the firm has purchased the remainder of the bananas at $2.50 per bunch.

Commission merchants sometimes purchase merchandise which has been shipped to them to be sold on commission, usually at the request of the consignor. This permits the consignee to render an account of sales and remit the net proceeds more promptly. Dishonest commission merchants have been known to purchase merchandise and render account of sales at figures much below the market price. This method permits them to realize an additional profit besides the regular commission allowed.

When merchandise is purchased by the consignee, the stencil mark should be removed, and the goods placed with his own merchandise.

Turn to the loose-leaf consignment ledger for lot *D-1* and make the following entry.

Illustration 363

						18	25 bunches Bananas	2	50	62	50

Enter the purchase in the purchases journal, crediting Consignment *D-1*. John J. Howard's account is not credited, as the amount will be included in the net proceeds of lot *D-1* when an account of sales is rendered for the shipment.

No. 60.—Render an account of sales of lot *D-1;* commission, 7%; insurance, 2%.

Examine the loose-leaf consignment ledger account, lot *D-1*, and ascertain if an advance payment has been made. If so, deduct the amount of the advance payment before issuing a check for the net proceeds.

MAY 20

No. 61.—The firm buys from Stevens & Co., Bankers and Brokers, 5 ($500.00) U. S. Liberty Bonds, 4¼, at $86.50, as an investment.

Issue a check in payment of the bonds, and enter in the cashbook, debiting *U. S. Liberty Bonds 4¼* account.

When stocks and bonds are purchased by a mercantile firm as an investment, an account

is usually constructed for each class of stocks or bonds purchased, as Baldwin Locomotive Company Preferred; Midvale Steel Company, etc.; or an account may be constructed, as for example, Stocks and Bonds, in which are recorded all such investments, the name of each stock or bond being written in the explanation space.

MAY 21

No. 62.—Fill this order.

MAY 22

No. 63.—Issue a check for $600.00, as an advance payment on lot *B-2*.

Commission merchants frequently remit a part of the net proceeds before all the merchandise is sold. This is done to encourage consignors to ship more goods to be sold on commission. Be sure to make the necessary cashbook and loose-leaf consignment ledger records.

No. 64.—W. W. Brown reports that the following cash sales have been made from lot *E-1;* 25 baskets Cantaloups at $2.00; 25 baskets Tomatoes at $3.00.

Mr. Brown deposited the cash received in the bank. Record as previously instructed.

No. 65.—Issue a check in favor of Charles J. Klein in payment of invoice of May 14, less discount.

MAY 24

No. 66.—Check in payment of Walter E. Myer's 15-day trade acceptance, due May 25.

No. 67.—Order from Read & Murphey.

No. 68.—The firm purchases the remainder of the apples belonging to lot *B-2* at $6.50 per barrel.

No. 69.—Render an account of sales of lot *B-2;* commission, 7%; insurance 2%. Place the net proceeds to the credit of the consignor.

MAY 25

No. 70.—Invoice of shipment from T. B. Conner. The stencil mark assigned to this shipment is *A-2*.

MAY 26

No. 71.—Fill this order.

Prepare the 10-day sight draft and present it to your instructor, who will accept it for your customer.

MAY 28

No. 72.—George L. Moore, Cincinnati, Ohio, requests us to accept his 15-day sight draft as an advance payment on lot *E-1*. Mr. Mason accepted the draft, payable at the Commercial Bank, for $250.00.

MAY 29

No. 73.—Check to apply on account.

No. 74.—Check in payment of bill of May 21.

MAY 31

No. 75.—Issue a check in favor of T. B. Conner for the net proceeds of consignment *A-1*, placed to his credit May 13. Make a record in the cashbook debiting T. B. Conner's personal account.

No. 76.—Issue a check in favor of Walter T. Thompson for the net proceeds of consignment *B-2*.

No. 77.—Deposit all checks on hand.

No. 78.—Issue a check, $30.00, in payment of your salary as bookkeeper and bill clerk, and another in favor of H. F. Smith, $50.00, for salary and traveling expenses.

No. 79.—Pay, by check, the Bell Telephone Company's bill for May, $4.50.

No. 80—Credit each partner's personal account for his salary for the month of May.

No. 81.—Statement from the Commercial Bank.

Prepare a reconciliation of the bank statement as previously explained. Post all entries to date.

No. 82.—By referring to the notes receivable book, determine what notes have been paid that were discounted. Review page 25. Prepare a journal entry debiting Notes Receivable Discounted account and crediting Notes Receivable account.

Closing the Books of Original Entry and Posting Totals.—Refer to the illustrated books of original entry and follow the instructions given below.

Journal.—The closing entry in the journal contains one debit item, Consignments-in, and one credit item, Accounts Receivable. Refer to the model journal on page 81. Check each item posted to the ledger.

Cashbook.—Balance and rule the cashbook as shown on page 82. Post the footings of each special column to the proper ledger account. Check each item posted.

Purchases Journal.—Foot and rule the purchases journal. Prepare the closing entry, Merchandise Purchases (Dr.), Accounts Payable (Cr.), Consignments-in (Cr.).

Sales Journal.—Foot and rule the sales journal. Prepare the closing entry, Accounts Receivable (Dr.), Consignments-in (Cr.), Merchandise Sales (Cr.). Check each item.

Notes Receivable and Notes Payable Books.—Follow the instructions previously given.

Account Sales Register.—Foot the Present Charges and Accounts Payable columns. The other columns are only memorandum columns. Refer to the model account sales register on page 86. Debit Consignments-in account and credit Commission Earned and Insurance Earned accounts for the Present Charges and Credit Accounts Payable account as shown in Illustration 360.

Petty Cashbook.—Foot and rule the petty cashbook. Post the footing of each special column to the proper ledger account.

Trial Balance.—Pencil foot the accounts in the general ledger and prepare a trial balance. Have your trial balance approved.

Trial Balance Book.—A book has been provided in which to record the trial balances in consecutive order. The active accounts found in the general ledger are usually the same from month to month; therefore it is unnecessary to write the names of the accounts each time a trial balance is taken.

Record the trial balance in the first two columns of the trial balance book under date of May 31.

Abstract of Sales Ledger.—Prepare a schedule of the balances of the sales ledger and compare the footing with the balance of the controlling account, Accounts Receivable account, in the general ledger.

Abstract of Purchases Ledger.—Prepare a schedule of the balances of the purchases ledger and compare the footing with the balance of the controlling account, Accounts Payable account, in the general ledger.

Abstract of Consignment-in Ledger.—Prepare a schedule of the balances of the consignment ledger and compare the footing with the balance of the controlling account, Consignment-in, in the general ledger.

Prepare a schedule of the notes receivable and notes payable books as previously instructed.

Closing the Books.—The following facts affect the financial condition of the business at this time, but do not appear on the books.

Inventories and Accruals, May 31, 19—

Merchandise Inventory, May 31, 19—:	
25 baskets Peaches at	$1.25
25 bunches Bananas at	2.50
80 barrels Potatoes at	4.75
Insurance Expired:	
On building	$10.00
On truck	12.50
On stock of merchandise	8.00
Accrued Assets:	
Commission at 8% on goods sold from consignments, account sales not rendered.	
Insurance at 2% on goods sold from consignments, account sales not rendered.	
Turn to the consignment ledger sheet for *E-1* and *F-1* and calculate the commission and insurance on the sales which have been made during the business period.	
Accrued Liabilities:	
Unpaid freight bill on merchandise purchased	$10.30
Deferred Assets:	
Unexpired license on truck	$36.67
Office Supplies	5.80
Reserve for Depreciation:	
On furniture and fixtures, 1% per month.	
On building, 1% per month.	
On delivery equipment, 2% per month.	
On office equipment, 1% per month.	
Reserve for Bad Debts:	
One per cent of accounts receivable.	

Adjusting Entries.—Prepare the adjusting journal entries. To guide you in constructing the adjusting journal entries, model journal entries are given below. The explanation of each journal entry has been omitted in the text, but a suitable explanation should be made for each entry when recorded.

Journal

Illustration 364

				May 31				
		x,xxx	xx	Merchandise Purchases				
				Merchandise Inventory		x,xxx	xx	
				31				
		xxx	xx	Merchandise Inventory				
				Merchandise Purchases		xxx	xx	

May 31, 19—

xx	xx	General Expense		
xx	xx	Delivery Expense and Income		
x	xx	Selling Expense		
		Insurance Prepaid	xx	xx
		31		
xx	xx	Accrued Assets		
		Commission Earned	xx	xx
		Insurance Earned	x	xx
		31		
xx	xx	Freight Inward		
		Accrued Liabilities	xx	xx
		31		
xx	xx	Deferred Assets		
		Delivery Expense and Income	xx	xx
		Office Supplies	x	xx
		31		
xx	xx	General Expense		
xx	xx	Building Expense and Income		
xx	xx	Delivery Expense and Income		
		Res. for Dep. of Furniture and Fixtures	xx	xx
		Res. for Dep. of Building	xx	xx
		Res. for Dep. of Del. Equipment	xx	xx
		Res. for Dep. of Office Supplies	xx	xx
		31		
xx	xx	Bad Debts		
		Reserve for Bad Debts	xx	xx

Working Sheet.—If instructed by your teacher, prepare the ten-column working sheet as previously explained.

Adjusted Trial Balance.—Post the adjusting journal entries and prepare an adjusted trial balance.

Profit and Loss Statement.—Prepare the profit and loss statement, using Illustration 365 as a model. Have the profit and loss statement approved by the instructor before proceeding further with the work.

Closing Journal Entries.—Review Divisional Profit and Loss account on page 12. Prepare closing journal entries following the instructions given on page 55. The profit and loss statement will aid greatly when framing the closing journal entries. Place the profit and loss statement before you and frame the journal entries in the following order.

Step 1. Prepare closing journal entries for the first section of the profit and loss statement, recording the *Gross Profit on Sales* in the Trading account. Prepare the Working Form suggested in Illustration 345 before preparing the closing journal entries.

Step 2. Prepare a closing journal entry for the next section of the profit and loss statement, closing the Commission Earned and Insurance Earned accounts into the Trading account.

Step 3. Prepare a closing entry for the next section of the profit and loss statement, to close the income from shipments into the Trading account.

MASON AND BROWN

Profit and Loss Statement for Period Ending, May 31, 19—

Illustration 365

Returns from Sales:						
Gross Sales					x,xxx	xx
Deduct Cost of Sales:						
Mdse. Inventory, May 1, 19—			x,xxx	xx		
Mdse. Purchases from May 1 to May 31, 19—	x,xxx	xx				
Less Shipment	xxx	xx	xxx	xx		
Freight Inward			xx	xx		
Total Cost of Merchandise			x,xxx	xx		
Less Mdse. Inventory May 31, 19—			xxx	xx		
Net Cost of Merchandise Sold					x,xxx	xx
Gross Profit on Sales					xxx	xx
Income from Commission Sales:						
Commission Earned			xxx	xx		
Insurance Earned			xxx	xx		
Total Income on Commission Sales					xxx	xx
Income from Shipments:						
Net Proceeds of Shipments			xxx	xx		
Cost of Shipments			xxx	xx		
Income on Shipments					xx	xx
Gross Operating Profit					x,xxx	xx
Deduct Trading Expenses:						
Salesman's Salary and Expenses			xx	xx		
Delivery Expense and Income			xxx	xx	xxx	xx
Net Trading Profit					xxx	xx
Deduct General Administration Expense:						
General Expense			xx	xx		
Office Supplies			x	xx	xx	xx
Net Operating Profit					xxx	xx
Add Other Income:						
Discount on Purchases			xx	xx		
Interest Earned				xx	xx	xx
Total Income					xxx	xx
Deduct Other Charges:						
Discount on Sales			xx	xx		
Bad Debts			xx	xx		
Interest Paid			x	xx		
Building Expense and Income			xx	xx	xxx	xx
Net Profit for the Month					xxx	xx
Apportioned as follows:						
T. C. Mason, ½ Net Profit.			xxx	xx		
W. W. Brown, ½ Net Profit			xxx	xx	xxx	xx

Step 4. Prepare an entry to close the Trading Expense accounts into the Trading account.

Step 5. Prepare a closing journal entry to close the Trading account into the Administration account, as illustrated when the Divisional Profit and Loss account was explained. If the previous journal entries were correct, the amount necessary to close the Trading account should be the amount of the Net Trading Profit as shown in your profit and loss statement.

Step 6. Prepare a closing journal entry for the next section of the profit and loss statement, the *Administration Expenses.*

Step 7. Prepare a closing journal entry to close the Administration account into the Profit and Loss account. If the previous closing journal entries were correct, the amount necessary to close the Administration account should be the amount of the *Net Operating Profit* as shown in your profit and loss statement.

Step 8. Prepare a closing journal entry to close the next section of the profit and loss statement, *Other Income,* into the Profit and Loss account.

Step 9. Prepare a closing journal entry to close the next section of the profit and loss statement, *Other Charges,* into the Profit and Loss account.

Step 10. If your previous closing journal entries were correct, the balance of the Profit and Loss account should be the amount of the Net Profit for the month, as shown in your profit and loss statement. If it is correct, prepare a closing journal entry, debiting the Profit and Loss account and crediting the capital accounts of T. C. Mason and W. W. Brown for the profit of the business according to the articles of copartnership. This entry completes the work necessary to close the ledger accounts.

Entries After the Ledger is Closed.—Since the nominal accounts that balance have been ruled, the remaining accounts in the general ledger represent the assets and liabilities and the proprietary interest of the partners A part of the assets and liabilities are represented by the Accrued Asset account, the Accrued Liabilities account, and the Deferred Assets account, which control the separate accounts to which the individual items belong. If the separate accounts are to represent their true amounts at the beginning of the next business period, journal entries should be prepared crediting the Accrued Assets account and debiting the individual accounts with their respective amounts; crediting the Deferred Assets account and debiting the individual accounts with their respective amounts; debiting the Accrued Liabilities account and crediting the individual accounts with their respective amounts.

Post the entries after the ledger is closed, and rule the journal. Rule the Accrued Assets, Accrued Liabilities and Deferred Assets accounts.

Balance Sheet.—Prepare a balance sheet, following the form illustrated on page 102, and submit it to your instructor for examination and approval.

Proof Trial Balance.—Prepare a proof trial balance and submit it to your instructor for examination and approval.

Percentage Results Often Required.—Find the percentages called for in the following exercises for Mason & Brown's profit and loss statement, May 1 to May 31, 19—. Keep your results for a subsequent exercise.

Percentage Exercises

1. What is the rate of gross profit on sales? On the cost of sales?
2. What per cent of the gross operating profit is the commission earned? insurance earned?
3. What per cent of the gross operating profit is the net operating profit?
4. What per cent of the net trading profit is the net profit?
5. What per cent of the investment is the net profit?

Balance Sheet of

Illustration 366

		Assets						
		Current Assets:						
		Cash			x,xxx	xx		
		Petty Cash			x	xx		
		Notes Receivable	x,xxx	xx				
		Less, Notes Receivable Discounted	x,xxx	xx	xxx	xx		
		Accounts Receivable	x,xxx	xx				
		Less Reserve for Bad Debts	xx	xx	x,xxx	xx		
		Merchandise Inventory			xxx	xx		
		Consignments-in			xxx	xx		
		Total Current Assets					xx,xxx	xx
		Accrued Assets:						
		Commission Earned			xx	xx		
		Insurance Earned			x	xx		
		Total Accrued Assets					xx	xx
		Fixed Assets:						
		U. S. Liberty Bonds			x,xxx	xx		
		Building, 615 Liberty Street	x,xxx	xx				
		Less, Reserve for Depreciation	x,xxx	xx	x,xxx	xx		
		Furniture and Fixtures	x,xxx	xx				
		Less, Reserve for Depreciation	xxx	xx	xxx	xx		
		Office Equipment	xxx	xx				
		Less, Reserve for Depreciation	x	xx	xxx	xx		
		Lot, 615 Liberty Street			x,xxx	xx		
		Delivery Equipment	x,xxx	xx				
		Less, Reserve for Depreciation	xx	xx	x,xxx	xx		
		Total Fixed Assets:					xx,xxx	xx
		Deferred Assets:						
		Office Supplies			x	xx		
		Delivery Expense			xx	xx		
		Insurance Prepaid			xxx	xx		
		Total Deferred Assets					xxx	xx
		Total Assets					xx,xxx	xx

COMMISSION BUSINESS OF MASON & BROWN

June

Business Practice.—The business papers which were received and issued during May will be discontinued during June. The text book will supply sufficient information to enable you to record each transaction. The omission of the business papers will enable you to concentrate your attention on the technical phases of bookkeeping.

The sales order, which has been found on the pad of incoming vouchers, will be prepared by the pupil from the information given in the text when a sale is made. You will find a pad of blank orders among your forms.

Mason & Brown, May 31, 19—
Illustration 366

Liabilities					
Current Liabilities:					
Notes Payable			xxx	xx		
Accounts Payable			xxx	xx		
Total Current Liabilities					x,xxx	xx
Accrued Liabilities:						
Freight Inward					xx	xx
Proprietary Interest:						
T. C. Mason, Capital	xx,xxx	xx				
T. C. Mason, Personal	xxx	xx	xx,xxx	xx		
W. W. Brown, Capital	xx,xxx	xx				
W. W. Brown, Personal	xxx	xx	xx,xxx	xx		
Total Proprietary Interest					xx,xxx	xx
					xx,xxx	xx

Transactions

JUNE 1

Check from Read & Murphey in payment of their bills of May 6 and May 24.
The following consignments have been received and the goods checked:
John J. Howard, New Orleans, La. (Stencil D-2)
200 bunches Bananas; 50 brls. Potatoes.
George L. Moore, Cincinnati, Ohio. (Stencil E-2)
350 doz. Eggs; 400 lbs. Butter.
Paid, by check, freight and drayage charges on lot *D-2*, $5.60; lot *E-2*, $4.30.

The following sales have been made:

H. F. Wilson, Boston, Mass.; terms, 2/30, N/60.
20 brls. Potatoes; 25 baskets Cantaloups *A-2*.

E. H. Hill & Co., Lancaster, Pa.; terms, cash less 2%. Check received with order.
50 baskets Tomatoes *E-1*; 25 baskets Tomatoes *A-2*.

Prepare order blanks. The sales journal record and the loose-leaf consignment ledger record will be made from them. Additional order blanks will be found in your envelope of business forms.

The balance of the Petty Cash has been returned to the general cash fund.

Debit the *Cash* account and credit the *Petty Cash* account.

JUNE 3

Invoice from J. L. Scott, Reading, Pa., $244.00; terms, 30-day trade acceptance.

Record the invoice in the purchases journal. Instead of accepting the 30-day trade acceptance, Mr. Mason prepaid it by writing a check for the amount, less the discount from June 3 to the date of maturity. Refer to T. B. Rose's entry in the model cashbook on page 33. Enter the interest (discount) in the Interest Earned column, the cash paid in the Cash Cr. column, and the amount of the trade acceptance in the Accounts Payable column.

Paid, by check, the Union Provision Company's invoice of April 20, less 4%.

Deposited 5 coupons cut from the U. S. Liberty Bonds, $53.00.

Credit *U. S. Liberty Bonds Income* account.

Sold Walter E. Myers, Memphis, Tenn.; terms, 4/10, N/30.
50 baskets Cantaloups *E-1*. Prepare an order blank.

JUNE 4

Render an Account Sales for consignment *E-1*; commission, 8%; insurance, 2%. A check has been issued for the net proceeds.

Make the necessary cashbook and account sales register entries and close the consignment ledger account.

Check from the Eastern Produce Co., to apply on account, $200.00.

Cash sale to H. F. Wilson. Check received in payment.
20 brls. Apples; 50 bunches Bananas *D-2*; 100 lbs. Butter *E-2*.

Paid, by check, T. C. Mason, $200.00; W. W. Brown, $200.00 for private use.

JUNE 5

Check from H. F. Wilson in payment of his 10-day trade acceptance of May 26, $475.00.

Cash sale. Cash received in payment.
25 baskets Cantaloups *A-2*.

Purchased the remainder of the Tomatoes belonging to consignment *A-2* at $2.40 per basket.

Render an Account Sales for consignment *A-2*; commission, 7%; insurance, 2%.

A check has been issued for the net proceeds.

Paid, by check, bill for advertising the sale of Apples and Peaches of consignment *F-1*, $3.20.

The following consignments have been received and the goods checked:

J. Barton & Sons, Knoxville, Tenn. (Stencil C-2)

500 doz. Eggs; 200 lbs. Butter.

Walter T. Thompson, Louisville, Ky. (Stencil B-3)

75 baskets Peaches; 100 brls. Apples.

Paid, by check, freight and drayage charges on lot *C-2*, \$3.40; lot *B-3*, \$2.00.

JUNE 7

We have found that 10 dozen Eggs, received June 5 from J. Barton & Sons, lot *C-2*, were broken and unsalable.

Mr. Mason wrote J. Barton & Sons informing them of the loss. Make the proper explanation in the consignment ledger for lot *C-2*.

Invoice from W. L. Walters, Newark, N. J.; terms, on account, \$150.00.

Paid, by check, F. J. Willis, Pittsburgh, Pa., the balance of his account.

JUNE 8

The following sales have been made:

Eastern Produce Company, Baltimore, Md.; terms, on account.

50 baskets Peaches; 50 baskets Peaches *F-1*.

H. H. Hill & Company, Lancaster, Pa.; terms, 20-day trade acceptance.

35 brls. Apples *F-1*.

Cash sale. Cash received in payment.

10 bunches Bananas *D-2*.

Render an Account Sales for consignment *F-1;* commission, 8%; insurance, 2%. A check has been issued for the net proceeds.

JUNE 10

Check from Walter E. Myers in payment of his bill of June 3, less 4% discount.

We have allowed the Eastern Produce Company a rebate of \$5.50 on 5 baskets Peaches reported of inferior quality. Prepare a credit memorandum.

Debit *Merchandise Sales* and credit the *Eastern Produce Company's* account in the journal.

Permission has been given the Commercial Bank to pay Walter T. Thompson's sight draft on us for \$200.00. Advancement on lot *B-3*.

JUNE 11

The following sales have been made:

Charles Smith & Co.; terms, net cash less 4%.

50 bunches Bananas *D-2*; 100 doz. Eggs *E-2*.

Check received from Charles Smith & Co. in payment of the above sale, less discount, and for their bill of May 13.

C. J. Carol, Philadelphia, Pa.; terms, on account, 10 days.

100 lbs. Butter *C-2*.

Enter C. J. Carrol's bill in the Sundry Debtor account. Review Sundry Debtor on page 80.

Check from the Eastern Produce Company for \$280.00.

Turn to the Eastern Produce Company's account in the ledger and determine the amount which they owe us. It will be observed that they have overpaid their account. Mr. Brown wrote them notifying them of the overpayment. Credit them for the full amount of the check.

Paid, by check, the United Motor Company's bill for gasoline and oil for the delivery truck, $15.40.

JUNE 12

Paid, by check, our 15-day trade acceptance of May 28 in favor of George L. Moore, $250.00.

Check from Simpson & Sons, Cape May, N. J., in payment of their bills of April 10 and May 13.

JUNE 14

The following sales have been made:

Eastern Produce Company; terms, on account.

75 baskets Peaches; 10 brls. Apples; 25 baskets Peaches *B-3*.

E. H. Hill & Company; terms, 15-day trade acceptance.

100 doz. Eggs *E-2*; 200 lbs. Butter *E-2*; 10 bunches Bananas.

F. C. Peyton, Harrisburg, Pa.; (Sundry Debtor); terms, on account, 10 days, 10 brls. Potatoes.

Cash sale. Cash with order.

100 doz. Eggs *C-2*; 50 bunches Bananas *D-2*.

The following consignments have been received and the goods checked:

T. B. Conner, 138 Grove Ave., Lima, Ohio. (Stencil A-3)

300 bunches Bananas; 265 brls. Potatoes.

W. O. Weaver, 320 Market St., Chicago, Ill. (Stencil F-2)

500 baskets Cantaloups; 400 baskets Tomatoes.

Paid, by check, freight and drayage charges on lot *A-3*, $6.20; lot *F-2*, $4.10.

JUNE 15

Check from C. J. Carrol, Philadelphia, Pa., in payment of bill of June 11.

Credit the Sundry Debtor's account. Enter C. J. Carrol's name in the explanation columns of both the cashbook and the Sundry Debtors' account.

Invoice from W. C. Ogden, Oil City, Pa.; terms, 4/10, $243.00.

The following sales have been made:

E. H. Hill & Company, Lancaster, Pa.; terms, on account.

150 doz. Eggs *E-2*; 100 lbs. Butter *E-2*; 100 baskets Cantaloups *F-2*; 10 brls. Apples.

Cash sale. Cash with order.

40 bunches Bananas *D-2*.

Charles Smith & Company, Pittsburgh, Pa., terms, cash less 2%. Check with order.

50 brls. Potatoes *D-2*.

A check has been issued to you for $30.00, the amount of your salary to date.

A check has been issued in favor of H. F. Smith, traveling salesman, for $65.00, the amount of his salary and expenses.

A check has been issued in payment of the Union Stationery Company's bill of $7.50 for supplies for the office.

JUNE 17

Render an Account Sales for consignment *D-2;* commission, 8%; insurance, 2%. Remitted the net proceeds by check.

Render an Account Sales for lot *E-2;* commission, 8%; insurance, 2%. Proceeds placed to the credit of the consignor.

T. B. Conner, Lima, Ohio, requested us to accept or prepay their 30-day time draft as an advanced payment on lot *A-3*, $550.00.

A check has been issued for the net proceeds, less the discount at 6% for 30 days.

JUNE 18

The following consignment has been received and the goods checked:

John J. Howard, 1216 Market St., New Orleans, La. (Stencil D-3)

50 crates Cherries; 70 crates Lemons.

Paid, by check, freight and drayage charges on lot *D-3*, $3.25.

Charles Smith & Company, Pittsburgh, Pa., reported that 2 brls. Potatoes shipped to them June 15 were received in bad condition and unsalable.

The 2 brls. Potatoes were taken from lot *D-2*. Mr. Mason wrote John J. Howard, the consignor, informing him of the condition of the potatoes. Since an Account Sales was rendered June 17 for lot *D-2* and the net proceeds remitted by check, the value of the 2 brls. Potatoes will be charged as an advance payment on lot *D-3*.

Since Charles Smith & Company paid their bill of June 15, less 2% discount, they have charged our account for the net value of the potatoes. Prepare a journal entry debiting Consignment-in, lot *D-3*, and crediting Charles Smith & Company. Debit lot *D-3* in the loose-leaf consignment ledger and credit Charles Smith & Company in the sales ledger. Prepare credit memorandum.

Paid, by check, the City Garage's bill for cleaning and adjusting the motor of the delivery truck, $12.30.

JUNE 19

Five baskets of Peaches purchased from W. C. Ogden on June 15 are in bad condition and unsalable.

Debit W. C. Ogden's account and Accounts Payable account and credit Merchandise Purchases account in the journal for the cost value of the peaches, $6.50.

Review William Reese's entry of January 18 on page 31 which illustrates the method of recording a transaction which affects a controlling account and a subsidiary account.

Paid, by check, the balance of W. C. Ogden's invoice of June 15, less 4% discount.

JUNE 21

The following sales have been made:

John H. Marshall, 3324 North Street, Pittsburgh, Pa.; terms, 3/10.

50 brls. Apples *B-3;* 200 doz. Eggs *C-2.*

Walter E. Myers, Memphis, Tenn.; terms, 3/10.

50 bu. Potatoes; 300 baskets Tomatoes *F-2;* 50 baskets Peaches *B-3.*

Render an Account Sales for lot *B-3*; commission, 8%; insurance, 2%.

Remit the net proceeds by check.

It will be observed that only a part of the Apples have been sold. Calculate the commission and insurance on the present sales. Remit the proceeds by check. Close the consignment account for lot *B-3* and enter the unsold goods underneath the ruling as follows: *June 20, Unsold, 50 brls. Apples.*

Prepare a new consignment ledger sheet for the unsold goods. (Stencil B-4).

Paid, by check, the Interstate Transportation Company's bill for freight charges on our own merchandise, $10.30.

Check from C. J. Smith & Son in payment of their bill of May 11.

Issue a check in favor of George L. Moore for the net proceeds of consignment *E-2*, which we placed to his credit on June 17.

Closing the Books.—Foot, rule, and post the books of original entry as instructed at the close of the May work.

Trial Balance and Schedules.—Prepare a trial balance of the general ledger and the schedules asked for at the close of the May work. Present them to your instructor for examination and approval. The trial balance and schedules are prepared at this time for the purpose of giving additional practice in closing the books of original entry and posting the totals of the various books and special columns to their respective accounts. Do not prepare the business and financial statements. There are no adjusting entries to be made at this time.

JUNE 22

Check from E. H. Hill & Company, Lancaster, Pa., to apply on account, $180.00.

Check from H. F. Wilson in payment of his bill of June 1, less discount.

The following sales have been made:

Eastern Produce Company, Baltimore, Md.; terms, 30-day trade acceptance.
50 brls. Apples *B-4*.

Charles Smith & Company, Pittsburgh, Pa.; terms, 2/10.
50 bunches Bananas *A-3*; 150 baskets Cantaloups *F-2;* 100 lbs. Butter *C-2;* 50 baskets Peaches.

H. S. Fields, Reading Pa.; terms, 2/10. (Sundry Debtor).
50 crates Cherries *D-3*.

Discount the Eastern Produce Company's 30-day trade acceptance at the bank and receive credit for the proceeds.

Render an Account Sales for lot *B-4;* commission, 8%; insurance, 2%. Remitted the proceeds by check.

Invoice from Charles J. Klein, Muncie, Ind.; terms, 4/10, N/60, $270.00.

T. C. Mason paid the following amounts.

Crating eggs for lot *C-2*, $1.60; crating bananas for lot *A-3*, $2.10; gasoline and oil for truck, $12.30.

The following consignments have been received and the goods checked.

Walter T. Thompson, Louisville, Ky. (Stencil B-5)
100 baskets Peaches; 50 brls. Apples; 50 baskets Cantaloups; 75 baskets Tomatoes.

George L. Moore, Cincinnati, Ohio. (Stencil E-3).
100 baskets Cantaloups; 100 baskets Tomatoes.

Shipment accompanied by George L. Moore's 15-day time draft for $300.00. Mr. Mason accepted it, payable at the Commercial Bank. Enter in the notes payable book.

Paid, by check, freight and drayage charges on lot *B-5*, $5.60; lot *E-3*, $3.75.

JUNE 24

Check from E. H. Hill & Company for the balance of their bill of June 15.

By agreement with J. Barton & Sons, we are taking to our account the remainder of the eggs of consignment *C-2* at 25¢. per dozen.

Render an account sales for lot *C-2;* commission, 8%; insurance, 2%.
Remitted the net proceeds by check.
The following sales have been made:
H. F. Wilson, Boston, Mass., terms, 30-day trade acceptance.
150 baskets Cantaloups *F-2;* 70 crates Lemons *D-3*.
E. H. Hill & Company, Lancaster, Pa.; terms, 2% cash. Check received with order. 65 brls. Potatoes *A-3*.
J. C. Cohen, Newark, N. J.; terms, on account. (Sundry Debtor).
90 doz. Eggs.
Check from F. C. Peyton (Sundry Debtor), in payment of his bill of June 14.
Render an Account Sales for lot *D-3;* commission, 8%; insurance, 2%. Proceeds remitted by check.
The following consignments have been received and the goods checked:
John J. Howard, New Orleans, La. (Stencil D-4)
100 crates Cherries; 150 crates Lemons.
J. Barton & Sons, Knoxville, Tenn. (Stencil C-3).
400 doz. Eggs; 300 lbs. Butter.
Memorandum accompanied by J. Barton & Sons' 30-day sight draft for $150.00. Mr. Mason accepted it payable at the Commercial Bank.
Paid, by check, freight and drayage charges on lot *D-4*, $3.80; lot *C-3*, $3.20.

JUNE 25

Check from E. H. Hill & Company in payment of their 20-day trade acceptance due June 28, $262.50.
The following sales have been made:
E. H. Hill & Company, Lancaster, Pa.; terms, 30-day trade acceptance.
100 bunches Bananas *A-3*; 25 brls. Apples *B-5*.
H. F. Wilson, Boston, Mass.; terms, cash. Check received with order.
50 baskets Cantaloups *E-3*; 50 baskets Peaches.
Paid, by check, the City Stationery Company's bill for office stationery, $6.50.

JUNE 26

Paid, by check, the Ajax Truck Company's bill for adjusting motor of truck, $8.00.
Check from the American Fruit Company, $25.00, for the use of our truck in moving their stock of merchandise to their new store.

Credit *Delivery Expense & Income* account.

Paid, by check, for sorting and crating tomatoes belonging to lot *E-3*, $3.00.
Check from E. H. Hill & Company, in payment of their trade acceptance of June 14, due June 29, $140.00.

JUNE 28

Invoice from W. C. Ogden, Oil City, Pa.; terms, 3/10, N/30, $144.00.
Check from the R. C. Cunningham Hardware Company, for rent of storeroom, $180.00.

A portion of the building has been rented for one year to the R. C. Cunningham Hardware Company to be used as a storeroom. They have paid the first month's rent in advance. Credit *Building Expense & Income* account.

Sold H. F. Wilson, Boston, Mass.; terms, 3/10, N/30, the remainder of the tomatoes and cantaloups belonging to consignment *F-2*.

Render an Account Sales for lot *F-2;* commission, 8%; insurance, 2%. Proceeds remitted by check.

Paid, by check, Charles J. Klein's invoice of June 22, less discount.

Invoice from Charles J. Klein, Muncie, Ind.; terms, 3/10, N/30, $160.00.

Check from John H. Marshall in payment of their bill of June 21, less discount.

The following sales have been made:

E. H. Hill & Company, Lancaster, Pa.; terms, 30-day trade acceptance.
15 bunches Bananas; 50 brls. Potatoes *A-3*.

John H. Marshall, Pittsburgh, Pa.; terms, 3/10.
200 doz. Eggs *C-3;* 100 baskets Tomatoes *E-3;* 20 brls. Potatoes.

H. H. Green (Sundry Debtor), City; terms, on account.
200 lbs. Butter *C-3*.

JUNE 29

Check from J. C. Cohen (Sundry Debtor) in payment of his bill of June 24.

Check from Walter E. Myers in payment of his bill of June 21, less discount.

Invoice from F. J. Willis, Pittsburgh, Pa.; terms, on account, $132.00.

The following sales have been made:

Walter E. Myers, Memphis, Tenn.; terms, 15-day trade acceptance.
150 bunches Bananas *A-3;* 150 brls. Potatoes *A-3*.

Eastern Produce Company, Baltimore, Md.; terms, on account.
50 baskets Peaches *B-5;* 200 doz. Eggs *C-3;* 50 crates Cherries (*D-4*); 25 baskets Tomatoes.

Render an Account Sales for lot *A-3;* commission, 8%; insurance, 2%. Remitted proceeds by check.

The following checks have been issued:

The Bell Telephone Company's bill for June, $4.50; bookkeeper's salary, $30.00; traveling salesman's salary and expense bill, $62.50.

Credit each partner's personal account for the amount of his salary for the month of June.

Closing the Books of Original Entry.—Foot, rule, and post the books of original entry as previously instructed.

Trial Balance and Schedules.—Prepare a trial balance of the general ledger and the schedules of the subsidiary ledgers asked for at the close of the May work.

Closing the Books.—The following facts affect the financial condition of the business, but do not appear on the books.

Inventories, Accruals and Adjusting Entries

JUNE 30, 19—

Merchandise	$752.40
Insurance Expired:	
On building	10.00
On truck	12.50
On stock of merchandise	8.00

Accrued Assets:

Commission 8% on goods sold from consignments, account sales not rendered.

Insurance 2% on goods sold from consignments, account sales not rendered.

Deferred Charges:

Unexpired License on truck	33.34
Office Supplies	3.50

Reserve for Depreciation:

On furniture and fixtures, 1% per month.
On building, 1% per month.
On delivery equipment, 2% per month.
On office equipment, 1% per month.

Adjustments and Statements.—Prepare the following work as in May. If instructed by the teacher, prepare the ten-column working sheet.

1. Prepare and post the adjusting entries.
2. Prepare an adjusted trial balance.
3. Prepare the profit and loss statement.
4. Prepare and post the closing entries, using working form. Rule all accounts which balance.
5. Prepare the balance sheet.
6. Prepare closing entries, post and rule ledger accounts.
7. Prepare, after the ledger is closed, journal entries.
8. Prepare a proof trial balance.
9. Find the percentages called for on page 101.
10. Close the partners' personal accounts into their capital accounts. Balance and rule the capital accounts.

Questions

1. Give the meaning of the terms consignee, consignor, consignment-in, and shipment.
2. What is the inducement for the consignor to ship goods to be sold on a commission.
3. Explain the use of the account sales and the account sales register.
4. When is the balance of the Consignment account a resource? A liability?
5. What step should be taken when all the goods of the consignor are sold?
6. What entry should be made at the end of a business period for commission earned, account sales not rendered?
7. In which statement should a Shipment account appear if the account sales has not been received?
8. What is the value of special columns in the books of original entry?
9. What is the advantage of the loose-leaf ledger?
10. Name the controlling accounts used in the commission set.
11. Why must the Consignment account balance when account sales have been rendered for all consignments?
12. To what account is freight paid on a consignment charged? Why?
13. What accounts show the profits of selling goods on commission?
14. What controlling accounts were used in the commission set?
15. Enumerate the divisions of the profit and loss statement.
16. Enumerate the divisions of the balance sheet.

Review Exercise

Prepare a working sheet, profit and loss statement and balance sheet. Prepare the necessary journal entries to adjust inventories and accruals and to close the ledger accounts.

Submit all of the supplementary work to your instructor for approval.

Exercise 206

John L. Moore's Trial Balance, June 30. 19—

5	Cash	3,400	00		
9	Notes Receivable	2,000	00		
11	Notes Receivable Discounted			1,000	00
13	Merchandise Inventory, June 1, 19—	975	00		
17	Land	3,000	00		
21	Building, 368 Wilson Ave.	3,500	00		
23	Reserve for Depreciation on Building			500	00
27	Furniture and Fixtures	1,150	00		
29	Reserve for Depreciation on Furniture and Fixtures			150	00
36	Accounts Receivable	2,755	50		
38	Consignments-in	350	00		
41	Accounts Payable			1,505	80
44	Notes Payable			600	00
49	John L. Moore, Capital			13,911	11
55	Merchandise Purchases	1,275	60		
58	Merchandise Sales			1,345	45
62	General Expense	100	60		
66	Commission Earned			1,344	78
71	Insurance Earned			325	50
72	Insurance Prepaid	235	00		
73	Office Supplies	42	00		
77	Discount on Sales	113	25		
82	Discount on Purchases			307	80
84	Interest Paid	6	30		
85	Interest Earned			18	56
91	Building Expense and Income	60	75		
93	Delivery Equipment	2,000	00		
96	Selling Expense	45	00		
		21,009	00	21,009	00

Inventories and Accruals, June 30, 19—

Merchandise Inventory, June 30, 19— $1,564.20

Insurance Expired:

On building 20.00

On stock of merchandise 40.00

Accrued Assets:

Commission at 8% on sales amounting to 1,345.50

Insurance at 2% on sales amounting to 1,345.50

Accrued Liabilities:

Unpaid freight bill on merchandise purchased 4.50

Deferred Assets:

Office Supplies 28.00

Reserve for Depreciation:

On furniture and fixtures, 1% per month.

On building, 1% per month.

Graphic Representation.—The presentation of collected statistical data to the mind through the sense of sight may be called *Graphic Representation.*

Graph.—The picture, diagram, drawing or chart which shows comparisons or relation of parts to a whole may be called a graph.

Graphs and Their Uses.—Graphic representation is used very extensively to show:

(*a*) Comparative statistics.
(*b*) The value of one component part in relation to other component parts or to the whole.
(*c*) The variations or general trend of a series of magnitudes.

Kinds of Graphs.—Of the many kinds of diagrams, pictures, drawings or charts used to present collected statistical information to the mind through the eye, the following methods will be explained and illustrated.

(*a*) Straight line.
(*b*) Rectangle.
(*c*) Bar. (Vertical and horizontal.)
(*d*) Curve.

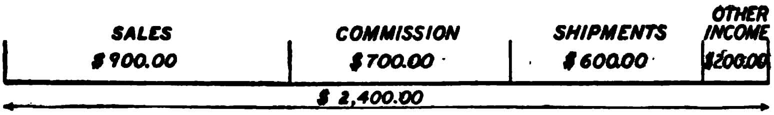
Straight Line Graph.—A straight line representing the whole and divided into sections by intersecting lines to represent component parts of the whole is known as a *straight line* graph.

Illustrative Exercise.

A firm's gross profit for the months of January, February, and March is $2,400.00. Of this amount $900.00 was from the sale of merchandise, $700.00 from the sale of goods on commission, $600.00 from shipments, and $200.00 from other income.

Illustration Representing a Straight Line Graph

Illustration 367

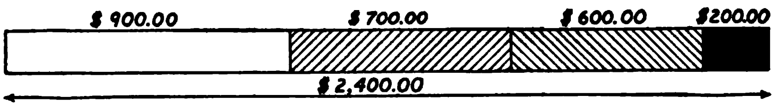


Analysis of the Straight Line Graph.—The length of the graph, which is four inches represents the total profit. The line is divided into sections each representing a component part of the whole.

Rectangular Graph.—A drawing in the form of a rectangle, divided into comparative sections, each representing a component part of the whole is known as a *rectangle graph.*

Illustration Representing a Rectangle Graph

Illustration 368



Analysis of the Rectangle Graph.—The length of the graph, which is four inches, represents the total profit. The rectangle is divided into sections each representing a component part of the whole.

Bar Graph.—A diagram measuring the relative value of each component part on co-ordinate paper, using either the vertical or horizontal axis, is known as a *bar graph.*

Axis.—The vertical or horizontal line, on which the graduated measure known as the scale is indicated, is known as the *axis.*

Scale.—The value of each square of the co-ordinate paper, which is to be determined by the proposition to be graphed, may be 1, 10, 100, 1,000 or any amount which would be most convenient to use.

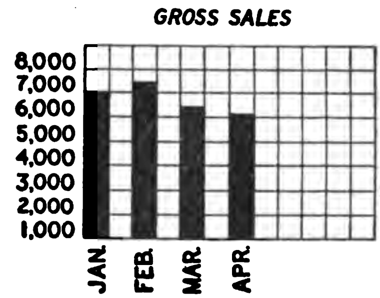
Illustrative Exercise

The statements of the Nelson Hardware Company give the following information:

	Jan.	Feb.	March	April
Gross Sales	$6,000.00	$6,500.00	$5,500.00	$5,250.00
Total Operating Expenses	300.00	400.00	275.00	300.00
Net Operating Expenses	600.00	750.00	550.00	600.00
Cost of Purchases	5,100.00	5,350.00	4,675.00	5,350.00

Illustration Representing a Bar Graph (Vertical Axis)

Illustration 369



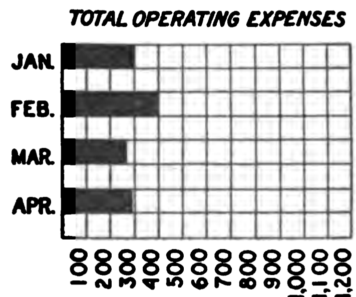
Analysis of the Bar Graph. (Vertical axis.)—The vertical line on the left is the axis. Each block measured on the axis represents 1,000. Therefore, the scale of the graph is 1,000 to each block.

The gross sales for January, $6,000.00, is represented by six blocks.

The gross sales for February, $6,500.00, is represented by six and one-half blocks.

The following illustration represents a bar graph, *horizontal axis*, showing the comparative total operating expenses of the Nelson Hardware Co. for the months ending April, 19—.

Illustration 370



Analysis of the Bar Graph. (Horizontal Axis.)—The base line at the bottom of the graph is the axis. Each block measured on the axis represents 100. Therefore, the scale of the graph is 100 to each block.

The total operating expenses for January, $300.00, is represented by three blocks.

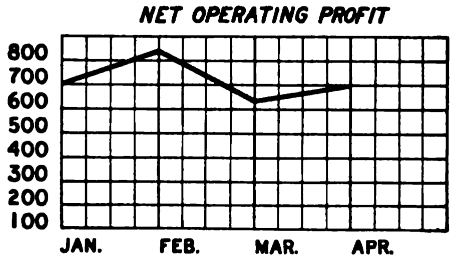
The total operating expenses for February, $400.00, is represented by four blocks.

Curve Graph.—A line drawn on squared or co-ordinate paper from a point on the axis measured by the scale to a point on another line of the graph measured by the same scale is known as a *curve graph.*

The following illustration represents a curve graph showing the comparative net operating profit of the Nelson Hardware Co. for the months of January, February, March and April, 19—.

Illustration Representing a Curve Graph

Illustration 371



Analysis of the Curve Graph.—A vertical line represents each of the months. A line is drawn from a point on the line representing the net operating profit for the month of January, $600.00, to a point on the line representing the net operating profit for the month of February, $750.00, etc.

General Principles of Graphic Representation:

1. The general arrangement of a graph should read from left to right.
2. The vertical scale should be placed at the left of the graph. Figures may be placed at the right if needed.
3. The horizontal scale should be placed at the bottom of the graph. Figures may be placed at the top if needed.
4. A line representing zero should show on the graph whenever possible.
5. The curve line in a curve graph should be much heavier than the co-ordinate lines.

Exercises for the Student

Exercise 207

Prepare a straight line graph as shown in illustration 367 for the following:

The salaries paid by the Moore & Brown Manufacturing Co. are as follows:

President	$3,000.00
Treasurer	2,400.00
Secretary	1,800.00
Manager	3,600.00

Exercise 208

Prepare a rectangle graph for exercise 207.

Exercise 209

The following statistical information was found in the profit and loss statements of the Moore & Brown Manufacturing Co.:

	Jan.	Feb.	March	April	May	June
Gross Sales	$52,000	$53,000	$48,000	$50,000	$51,000	$49,000
Returns and Allowances	2,000	2,500	1,900	3,200	2,800	1,500
Net Sales	50,000	50,500	46,100	46,800	48,200	47,500
Cost of Goods Sold	35,000	34,500	32,000	33,000	34,100	32,000
Gross Profit	15,000	16,000	14,100	13,800	14,100	15,500

(*a*) Prepare a bar graph (vertical axis) for the gross sales.
(*b*) Prepare a bar graph (horizontal axis) for the returns and allowances.
(*c*) Prepare a curve graph for each of the above items.

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